



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

DRAFT BUDGETARY PLAN GRAND DUCHY OF LUXEMBOURG 2015-2016

Luxembourg, 5 November 2015

*Courtesy translation
of the official French version of 15 October 2015*



Introduction

Pursuant to Article 6 of EU Regulation No. 473/2013, Luxembourg hereby submits its **draft budgetary plan** for the financial year 2016.

In accordance with article 3, paragraph 4 of **EU regulation 473/2013**, this draft budgetary plan is based on independent macroeconomic forecasts, to the extent that they are drafted by the Luxembourg Institute of Statistics and Economic Studies (STATEC).

As provided for in the code of conduct for regulations 473/2013 and 472/2013, the draft budgetary plan takes into account the modifications stemming from the transition to the **European System of Accounts 2010** classification system (SEC2010).

This draft budgetary plan is based on the 2016 draft budget submitted by the Government to **Parliament on 14 October 2015**.

I. Macroeconomic forecasts

The **global economic situation** is exuding anxiety going into the autumn of 2015. The slowdown of growth in China and uncertainty surrounding American monetary policy is impacting the world economy. In the **Euro zone**, recovery remains modest, despite a slight rise in growth in the second quarter.

With regard to **Luxembourg**, GDP data for the final quarter of 2014 and the first quarter of 2015 published simultaneously on 16 July indicate generally encouraging results.

According to STATEC estimates of September, real **GDP** growth for 2014 stood at 4.1% in Luxembourg. These same estimates indicate that GDP growth will likely be lower for the first quarter of 2015. This slowdown of the economy may be due in part to the 2 percent increase in VAT beginning on 1 January 2015 on all products except for those taxed at the super-reduced rate.

Despite the rise in VAT, the **inflation rate** has remained low at 0.3% over the first eight months of 2015, reflecting both the significant drop of prices in petroleum products and the general absence of inflationary pressures in Europe.

Wage costs have been subject to very limited upward pressure recently. Luxembourg is following the predominant trend in the Euro zone as a whole. There has been no upward movement related to the automatic wage index since the end of 2013, a situation that should continue through the end of 2015.

The situation of the **labour market** may be termed satisfactory at mid-2015; job creation has been rather steady, posting an annual growth rate of 2.5%. However, even with positive signs, the increases in employment are still too moderate to spur a significant drop in unemployment. While unemployment has retracted somewhat, its downward trend has levelled off considerably since the beginning of the year.

At this stage, STATEC is maintaining its **forecasts** for real GDP growth in 2015 and 2016 to 3.7% and 3.4% respectively. While known data could bring on upward movement for 2015, the international risks are such that it is possible that we may see worsening economic data emerging toward the end of the year. Unemployment should stand at 6.9% for the year 2015 instead of 7.0% and could drop by one-tenth of a percent in 2016.

II. Budgetary targets and budgetary policy

The Government's budgetary policy is governed by a medium term strategy featuring **two quantified budgetary targets** that the Government sets for the legislative period: i) the return of the medium term budgetary target of a structural balance of 0.5% of GDP, ii) stabilization of the gross public debt beneath 30% of GDP.

This **medium-term budgetary strategy**, which is described in the 16th update of the Growth and Stability and Convergence Programme of April 2015, is included again in the draft law on the multi-annual financial programming 2015-2019. This draft law sets the medium term budgetary framework under Chapter V of Directive 2011/85 and was submitted to Parliament on 14 October 2015 together with the 2016 draft budget¹.

The **budgetary target pursued in 2016** follows the goals set out in 2015. It consists of counter financing the revenue losses linked to a change of taxation principles concerning e-commerce, coming into force in January 2015². More specifically, the budgetary policy in 2016 includes no particular new measures in terms of discretionary policy compared to those that had been announced under the multi-year counter-financing strategy at the end of 2014 in the 2015-2018 multi-year financial programming law. While the budgetary impact of such measures was estimated at € 382 million or 0.8% of GDP for 2015, for 2016 this impact is estimated at € 584 million or 1.1% of GDP.

Regarding budgetary monitoring rules for the preventive arm of the Growth and Stability Pact that apply in Luxembourg in 2016, the following observations may be made³:

¹See.: <http://www.budget.public.lu/lu/index.html>

²In terms of the budget, i.e. with relation to 2014 income, the loss of income currently stands at € 521 million or 1.1% of GDP. In economic terms, i.e. taking into account a certain increase in revenue in 2015 in an unchanged policy scenario, the amount is € 654 million, or 1.4% of GDP.

³These observations are without prejudice to the final evaluation of the European Commission.

- The **structural balance** is supposed to move from a surplus of 0.7% of GDP in 2015 to a surplus of 0.6% of GDP in 2016. This slight decrease is primarily due to the negative impact of the economic situation on the structural balance, with the reduction of the output gap changing from -1.4% of GDP in 2015 to -0.2% of GDP in 2016. The budget balance is expected to move from a nominal surplus of 0.1% of GDP in 2015 to a surplus of 0.5% of GDP in 2016. Luxembourg will thus continue to keep to its medium-term budgetary target of a 0.5% surplus of GDP in 2016⁴.
- Regarding the second rule of the preventive arm of the Growth and Stability Pact, **real adjusted expenditures** may well be higher in 2016 than the reference rate of adjusted expenditures, i.e.: 3.7% instead of 1.1%, which would imply a significant movement of 1.1% of GDP exceeding the threshold of 0.5% of GDP per year.

The **gross public debt** is expected to rise from 22.3% of GDP in 2015 to 23.9% of GDP in 2016. This increase is the result of financing requirements of the central government.

III. Updating of tables related to recommendations and targets set by European Union strategy for growth and employment (Tables 6a and 6b):

With regard to the **recommendations** adopted by the European Council under the 2015 European Semester and the targets set by the EU for growth and employment, numerous specific policies as well as action plans and specific measures were adopted by the Government in recent years. Updating of measures taken in particular with respect to targets set by the EU strategy for growth and employment was accomplished during the latest version of the National Reform Programme (NPR)⁵.

⁴The output gap is determined from potential growth levels provided by the European Commission as part of its spring forecast and from the most recent real growth forecasts issued by STATEC. More information may be found on the European Commission site (in English): https://circabc.europa.eu/sd/a/a8db72d3-2aba-4b93-a302-9ffa1dfca8c1/T+5_2015_SPRING_Final%20MSs_TABLES.xlsx

⁵ See.: http://www.odc.public.lu/publications/pnr/2015_PNR_Luxembourg_2020_avril_2015.pdf

Statistical Appendix

1. Macroeconomic forecasts

Table 0. Basic assumptions

	Year 2014	Year 2015	Year 2016
Short-term interest rate (annual average)	0.2	0.2	0.2
Long-term interest rate (annual average)	2.0	1.3	1.5
USD/€ exchange rate (annual average)	1.3	1.1	1.1
Nominal effective exchange rate (evolution as a %)			
EU GDP growth	1.0	1.6	1.9
Growth of relevant foreign markets			
Oil prices (Brent, USD/barrel)	99.0	53.0	46.6

Table 1.a. Macroeconomic prospects

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016
		Level	rate of change	rate of change	rate of change
1. Real GDP (reference year = 2005)	B1*b	43.7	4.1	3.7	3.4
2. Potential GDP		-	2.7	2.8	2.8
3. Nominal GDP (billion EUR)	B1*b	47.3	3.4	3.2	3.9
Components of real GDP					
4. Private final consumption expenditure	P.3	14.4	3.8	3.0	2.3
5. Government final consumption expenditure	P.3	7.4	4.5	2.5	2.0
6. Gross fixed capital formation	P.51	8.5	9.9	7.1	-6.3
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	0.4	0.8	0.7	0.6
8. Exports of goods and services	P.6	85.3	6.8	5.4	6.9
9. Imports of goods and services	P.7	72.4	8.0	6.0	6.0
Contributions to real GDP growth					
10. Final domestic demand		30.3	3.8	2.8	-0.2
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	0.4	0.1	0.4	0.0
12. External balance of goods and services	B.11	12.9	0.1	0.6	3.5

Table 1.b. Price developments

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016
		Level	Rate of change	Rate of change	Rate of change
1. GDP deflator (2005=1)			1.0	-0.4	0.5
2. Private consumption deflator			0.6	0.7	1.4
3. HICP			0.7	0.1	1.2
4. Export price deflator (goods and services)			2.2	1.2	1.3
5. Import price deflator (goods and services)			2.7	2.0	2.0

Table 1.c. Labour market developments

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016
		Level	Rate of change	Rate of change	Rate of change
1. Employment, persons (in 1000 pers.) ¹		395.2	2.4	2.6	2.5
2. Employment, hours worked (2005 = 1)		0.96	0.4	-0.3	-0.3
3. Total employment (equivalent of total number of hours worked)		380.4	2.8	2.3	2.2
4. Unemployment rate (%) ²		6.2	-	6.0	5.9
5. Labour productivity, persons ³ (1,000 EUR)		110.5	1.6	1.1	0.9
6. Compensation of employees (billion EUR)	D.1	24.0	5.5	3.3	5.0
7. Compensation per employee (1,000 EUR/year)		64.7	3.0	0.7	2.4

¹ Active employed population, in thousands, national accounts definition

² Harmonized definition, Eurostat

³ Real GDP per person employed

2. Budgetary targets

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	Year 2015	Year 2016
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	0.1	0.5
2. Central government	S.1311	-1.4	-1.2
3. State government	S.1312		
4. Local government	S.1313	-0.2	0.1
5. Social security funds	S.1314	1.6	1.6
6. Interest expenditure	D.41	0.3	0.3
7. Primary balance		0.4	0.8
8. One-off and other temporary measures		0	0
9. Output gap (% of potential GDP)		-1.4	-0.2
10. Cyclical budgetary component		-0.6	-0.1
11. Structural balance		0.7	0.6

Table 2.b. General government debt developments

	ESA Code	Year 2015	Year 2016
		% GDP	% GDP
1. Gross debt		22.3	23.9
2. Change in gross debt ratio		-0.7	1.6
Contributions to changes in gross debt			
3. Primary balance		0.4	0.8
4. Interest expenditure	D.41	0.3	0.3
5. Stock-flow adjustment		-0.6	2.1
p.m.: implicit interest rate on debt ¹		1.5	1.4

¹ Equal to interest expenditure divided by the debt level of the previous year.

Table 2.c. Contingent liabilities

		Year 2015	Year 2016
		% GDP	% GDP
Public guarantees		9.3	
Of which: guarantees linked to the financial sector		5.5	

3. Expenditure and Revenue Projections under the no-policy change scenario

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

General government (S.13)	ESA Code	Year 2015	Year 2016
		% GDP	% GDP
1. Total revenue at unchanged policies	TR	43.3	43.8
Of which:			
1.1. Taxes on production and imports	D.2	11.9	11.6
1.2. Current taxes on income and wealth	D.5	14.6	14.8
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.4	12.7
1.5. Property income	D.4	1.4	1.5
1.6. Other ¹		2.8	3.0
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.1	39.3
2. Total expenditure at unchanged policies	TE	43.9	44.4
Of which:			
2.1. Compensation of employees	D.1	9.1	9.0
2.2. Intermediate consumption	P.2	4.0	4.0
2.3. Social benefits	D.621	21.2	21.1
Of which: Unemployment benefits		0.9	0.9
2.4. Interest expenditure	D.41	0.3	0.3
2.5. Subsidies	D.3	1.4	1.4
2.6. Gross fixed capital formation	P.51	4.1	4.3
2.7. Capital transfers	D.9	1.0	1.0
2.8. Other		2.7	3.3
3. Financing capacity / requirements		-0.7	-0.6

4. Expenditure and Revenue targets

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

	ESA Code	Year 2015	Year 2016
General government (S.13)			
		% GDP	% GDP
1. Total revenue target	TR	43.7	44.5
Of which:			
1.1. Taxes on production and imports	D.2	12.2	12.0
1.2. Current taxes on income, wealth, etc.	D.5	14.8	15.0
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.4	12.7
1.5. Property income	D.4	1.4	1.5
1.6. Other ¹		2.8	3.0
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.5	40.0
2. Total expenditure target			
	TE ²	43.6	43.9
Of which			
2.1. Compensation of employees	D.1	9.1	9.0
2.2. Intermediate consumption	P.2	4.0	3.9
2.3. Social payments	D.62 + D.632	21.1	20.9
Of which Unemployment benefits³		0.9	0.9
2.4. Interest expenditure	D.41	0.3	0.3
2.5. Subsidies	D.3	1.4	1.3
2.6. Gross fixed capital formation	P.51	4.0	4.2
2.7. Capital transfers	D.9	1.0	1.0
2.8. Other ⁴		2.7	3.3
3. Financing capacity / requirements		0.1	0.5

¹ P11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec)

² TR-TE= B.9

³ includes cash benefits (D.621 and D.624) and in kind benefits (D.631, SEC2010: D.632) related to unemployment benefits.

⁴ D.29pay + D.4 pay (other than D.41pay) +D.5 pay + D.7pay +P.52+P.53+K2+D.8.

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

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		50.4	0.1	0.2	0.2
2. Cyclical unemployment benefit expenditure (millions)		437.9	0.9	0.9	0.9
3. Effect of discretionary revenue measures (millions)		0.0	0.0	0.4	0.0
4. Revenue increases mandated by law		----	----	----	----

Table 4.c. Classification of the functions of the Government

Functions of the Government	COFOG Code	2015 % GDP	2016 % GDP
1. General public services	1	4.5	4.5
2. Defence	2	0.4	0.4
3. Public order and safety	3	1.0	1.0
4. Economic affairs	4	4.3	4.4
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	19.5
11. Total expenditure	TE	43.6	43.9

5. Description of discretionary measures included in the draft budget and in the draft law relating to the implementation of the Package for the Future

Table 5a. Discretionary measures taken by Central Government

List of measures	Detailed description	Target (Expenditure/Revenue component)	Accounting principle	Adoption status	Budgetary impact			
		ESA Code			2015	2016	2017	Year t+...
					% GDP	% GDP	% GDP	% GDP
Revenue					0.5	0.6		
1) Package of measures concerning the VAT	Increase of standard VAT rate from 15% to 17%; increase of intermediate rates from 6% to 8% and from 12% to 14%; Increase of reduced rate of 3% to the standard of 17% for the purchase of (new) secondary residences; Increase in rates for certain products	Increase in D2 revenues	Cash	Budget voted in 2015				
2) Introduction of a new contribution	Introduction of a new contribution of 0.5%	Increase in D5	Cash	Budget voted in 2015				
3) Certain number of additional measures concerning tax administrations	Strengthening of tax controls and introduction of new taxes	Increase in D5 revenues	Cash	Law approved on implementation of the Package for the future				
Expenditures					0.2	0.4		
1) Package of measures concerning diverse areas of intervention	Reduction in the area of acquisition of specialized equipment, reduction in subsidies for private transportation (buses), allocation to the national solidarity fund for minimum wage	Decrease in expenditures concerning categories P5, D3, D62, D9	Cash	Law approved on implementation of the Package for the Future				
TOTAL					0.7	1.0		

Table 5b. Discretionary measures taken by the Social Security

List of measures	Detailed description	Target (expenditure/revenue component)	Accounting principle	Adoption status	Budgetary impact			
		ESA Code			2015	2016	2017	Year t+...
					% GDP	% GDP	% GDP	% GDP
Revenue								
Expenditures					0.1	0.1		
(1) Package of measures concerning the social security sector	Measures in the area of illness - maternity insurance: Freeze of rates and code letter values for health professions; Reduction of rates and code letter values of laboratories; Introduction of a discount for orthopaedists and others; Renegotiation of the Belgian supplement; alignment with common law scheme. Voluntarily reduced increases in the overall budgetary envelope for the hospital sector; Pooling of certain hospital activities; Modernization of the CNS and review of administrative costs; Pricing per activity in the hospital environment in lieu of budgetization. Measures in the area of nursing care insurance: Freeze of current monetary values; More efficient application of criteria for awarding services.	Decrease in D62 expenditures	Cash	Approved on implementation of the Package for the future				
TOTAL					0.1	0.1		

* The 2016 impact is the cumulative effect of the measures taken in 2015 and those taken in 2016 or that begin to have an impact on the budget in 2016

6. Indications on how the measures in the DBP address CSR and the targets set by the Union's Strategy for growth and jobs.

Table 6a: CSR recommendations for 2015-2016

Note: This summary table highlights the principal measures of the 2015 National Reform Programme. It updates these measures for the 2015-2016 country-specific recommendations for Luxembourg. For more details, please consult the 2015 NRP.

2015-2016 Country-specific recommendations for Luxembourg (July 2015)

1. Further broaden the tax base, particularly with regard to consumption, recurring taxation of real estate assets and environment-linked taxation.
2. Reduce the gap between the legal and actual age of retirement, limiting early retirements and linking the legal age of retirement to changes in life expectancy.
3. Reform the wage setting system in cooperation with social partners and according to national practices so that increases in salary correspond to productivity, especially at the sector level.

CSR number	List of measures	Description of direct relevance
1.	Increase of VAT rates beginning on 1 January 2015. In general, the standard and reduced rates of VAT rose by two percentage points, from 15% to 17%, from 12% to 14% and from 6% to 8% respectively.	Strengthen the financial situation of the nation.
	The new standard VAT rate of 17% extends to both alcoholic beverages served in restaurants and to all real estate investments except for those purchased as primary residences.	Broaden the tax base.
	Increase of the standard VAT rate from 15% to 17% on energy products used in transportation (January 2015)	Increase taxation on energy products used in the transportation industry
	Introduction of a new time-related tax for fiscal consolidation over two years up until the tax reform.	Finance new policies taking into account the need for strengthening the Government's financial situation.
	Economic feasibility study of a reform of taxation of energy products in the transportation sector	Evaluate the medium and long term impact of a structural and significant decrease in the sale of fuel

		to non-residents following potential review of the taxation of energy products intended for transportation activities.
	Preparatory work to implement an overall tax reform in 2017 that will meet the criteria for tax predictability and stability, competitiveness, protection of jobs and social equity.	Restore balance in the tax base.
2.	Reform of pension insurance, taking effect in 2013 Check the consistency between basic assumptions of the reform and the updated financial trajectory of the scheme every five years.	Bring the retirement age in line with changes in life expectancy and adapt pensions to the budgetary situation of the pension scheme. Move up by one year the supervision and evaluation provided by law through the implementation of a "Group of Pensions" (2016 instead of 2017).
	Draft law amending the Labour Code with regard to early retirement provisions (July 2015)	Elimination of early retirement under the solidarity scheme and reform of other forms of early retirement in order to provide additional incentive for delaying retirement.
	Reform of the professional reclassification system (Law dated 23 July 2015)	Provide additional incentives for delaying retirement by accelerating procedures, a more thorough preservation of individual rights in external reclassification and the creation of conditions that promote internal reclassification.
	Draft law introducing a bundle of measures promoting an age policy (April 2014)	Draw up an age management plan for employers with more than 150 employees. Recruitment of older workers, anticipating career changes, improving working conditions, providing access to life-long education and passing on knowledge and skills to less experienced workers.
	Review of the law dated 8 June 1999 on regulation of complementary retirement schemes	Extend coverage of complementary pensions to non-salaried and independent professionals and offer all workers the possibility of financing complementary pensions through personal

		contributions.
	The "Fit4job - Re-launch my career" project	Meet the specific requirements of job seekers over 45 and essentially persons who have been unemployed in the long-term.
	Modernization of the Social Security medical examinations process (CMSS) (Law dated 7 August 2015)	Modernize the provisions of the Social Security medical examination to better target and strengthen its inspection and consulting work.
3.	Modulation of the automatic wage indexation system for 2012-2014 (Law dated 31 January 2012)	Make sure that wage developments follow changes in productivity. The maximum achievement obtained was the payment of a single wage indexing adjustment per year through a modulation of the automatic wage indexing system between 2012 and 2014. An interval of 12 months had to be maintained between each adjustment; following a deflationary environment, no wage indexing adjustment was ever paid in 2014.
	<p>Re-introduction of the "non-modulated" automatic wage indexing mechanism as provided for by the amended law dated 22 June 1963 for the period subsequent to that indicated by the temporary provisions of the 31 January 2012 law, taking into account the economic situation and changes in prices.</p> <p>An average of twelve months must elapse between two adjustments of wages and salaries to consumer price indices during the period between July 2014 and July 2018. If it is observed that this time period principle has a strong chance of being disregarded, consultations will occur regarding steps to take to remedy this situation. Should disagreement arise regarding what measures to implement, the government will submit the question to the legislative process.</p>	<p>Ensure that changes in wages follow changes in labour productivity over the medium term (2014-2018), taking into consideration that potential growth will in the future follow a more modest trajectory and that inflation should remain relatively low in a deflationary environment.</p> <p>According to the most recent forecasts by STATEC (August 2015), the next automatic wage indexing adjustment will occur between the final quarter of 2015 and the first quarter of 2016.</p>
	Analyses of changes in price and wage setting in Luxembourg (final analyses).	<p>Increase the amount of information available regarding price and wage setting.</p> <p>Methods for regulating price indexing clauses in France, Germany, Belgium and Luxembourg http://www.odc.public.lu/publications/perspectives/PPE_019.pdf</p>

		<p>Study on price adjustments of companies in Luxembourg http://www.odc.public.lu/publications/perspectives/PPE_026.pdf</p> <p>Wage setting and automatic indexation: A comparative analysis of four European countries http://www.odc.public.lu/publications/perspectives/PPE_028.pdf</p>
	<p>University of Luxembourg research project "Analysis of the impact of interactions between sectors on changes in wages" (launched in June 2015, with results expected in the first quarter of 2016)</p>	<p>The method of determining wages plays a considerable role in changes in competitiveness. The institutional framework in which wage negotiations take place can influence changes in wages, and thereby, in employment. The institutional framework is therefore likely to influence the way wages are set. This study is dedicated to analyzing interactions between the sectors.</p>

Table 6b: Targets set by the Union's Strategy for growth and jobs

Note: This summary table updates the principal measures relating to national objectives of the Europe 2020 programme, which stem from the 2015 National Reform Programme. For more details, please consult the 2015 NRP.

National Target	List of measures	Description of direct relevance to address the target
<p>National target for employment (71.5% for 2015) (73% for 2020)</p>	<p>Reform of the Employment Development Agency (ADEM), which came into force began in 2012, involving new regional agencies, additional employment counsellors, introduction of an employers' department and implementation of a personalized process.</p> <p>An agreement was concluded between the <i>Union des entreprises luxembourgeoises</i> (UEL), the government and ADEM under the "<i>Entreprises, partenaires pour l'emploi</i>" programme</p> <p>Development of an internal language training offer by ADEM</p> <p>Partnership between ADEM and the University of Luxembourg's Lifelong Learning and Guidance Institute to identify the risk factors of long-term unemployment to the extent possible.</p> <p>The Labour Market Observatory established a control panel and database to monitor the labour market (set up in 2011)</p> <p>Establishment of the Centre for Socio-Professional Guidance (COSP) in 2013</p>	<p>Increase efficiency of management of requests and job offers and more individualized follow-up of job seekers.</p> <p>Recruit 5,000 additional job seekers over the next three years via close cooperation for accomplishing specific actions such as regular exchanges of perspectives, partnerships between ADEM and private companies, special training courses and awareness campaigns.</p> <p>Offer language courses to job seekers with immigrant backgrounds focusing on languages used in Luxembourg.</p> <p>Provide adequate and proactive action depending on individual requirements of job seekers (personalized paths)</p> <p>This database will be used to carry out more accurate and targeted studies, especially on the effectiveness of measures that promote jobs.</p> <p>Specialized training for vulnerable persons, especially for young people who are very far from the job market.</p>

	<p>Optimization of the coordination of employment and reduction of poverty policies, supported by ESF; 20% of this budget will be consecrated to measures and projects to enhance social inclusion.</p> <p>Measures and actions to sustainably promote the new operational programme for 2014-2020 of the ESF</p> <p>Creation of a specific "green jobs" training course for the building sector beginning in mid-2015.</p> <p>A draft law to reform social dialogue within companies was submitted to Parliament in February 2015</p> <p>The "Guarantee for Youth" programme (June 2014)</p> <p>A draft law was submitted to Parliament in May 2013 with the objective of reforming the secondary educational system.</p> <p>In March 2015, the government submitted a draft law on the reorganization of academic and professional guidance as well as on the Guidance Centre.</p> <p>Analysis of the impact of the transition from collective to individual taxation on job offers</p> <p>Implementation of the national Action Plan for equality between men and women The "Positive Action" programme</p>	<p>Maximize coordination between employment and poverty reduction policies.</p> <p>Develop sustainable professional insertion for young people under 30, people who are very far from the job market and employed persons over 45.</p> <p>Develop employment in job-generating sectors.</p> <p>Qualitatively strengthen social dialogue in companies through the modernization, simplification and adapting of legal measures.</p> <p>Provide young people under the age of 25 good with quality support services to get them into a profession, return to school, get into an apprenticeship or a qualifications training programme, or helping them develop a personal/professional project.</p> <p>Better prepare young people for university studies and adult life.</p> <p>Increase compatibility between the knowledge and capabilities of the young and the requirements of the labour market.</p> <p>Establish a tax and social environment that promotes the employment of women.</p> <p>Increase equality between men and women.</p> <p>Promote companies to support gender equality.</p>
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	<p>Support of the "Dress for success" initiative</p> <p>Support for women setting up companies</p> <p>Promotion of balanced representation of men and women at the decision making level involving political parties, boards of directors, etc.</p> <p>Draft legislation to reform various early retirement systems</p> <p>Introduction of internships for job seekers aged at least 50 and registered at ADEM for at least one month</p> <p>Implementation of measures of the white paper on the national strategy for lifelong learning</p> <p>Management of the age pyramid in Luxembourg's civil service via an Action Plan (four specific actions)</p> <p><i>Measures implemented under country-specific recommendation no. 2 in July 2015 in Luxembourg</i></p>	<p>Prepare women who have been removed from the labour market from some time for job interviews.</p> <p>Increase the unemployment rate of women.</p> <p>Reduce the imbalance between men and women at the decision making level.</p> <p>Increase the employment rate of older persons by better targeting of employees working in difficult jobs and taking into account working conditions of senior employees.</p> <p>Support professional reinsertion of older job seekers more actively.</p> <p>Increase participation in lifelong learning processes.</p> <p>Increase the work rates of older public employees and reduction of pension budgets.</p> <p><i>Country-specific recommendations no2</i></p>
<p>National R&D target (2.0% for 2015) (2.3-2.6% for 2020) (of which, 0.7% to 0.9% in the public sector)</p>	<p>1. <u>For the public research sector</u></p> <p>Law dated 27 August 2014 modifying the National Research Fund (NRF)</p> <p>The law dated 3 December 2014 for setting up public research centres.</p>	<p>Updating of NRF tasks, re-determination of the framework of organizations eligible to receive NRF intervention, improvement of governance and introduction of collective subsidies for training-research.</p> <p>Determination of PRC status, PRC missions, administrative and governance bodies of PRC and PRC personnel. Merger of the Henri Tudor and Gabriel Lippmann PRCs in LIST and</p>

	<p>The law dated 25 November 2014, whose objective is to authorize financing of the Max Planck Institute in Luxembourg</p> <p>CORE Programme (NRF)</p> <p>The "National centre of excellence in research" programme (NRF)</p> <p>Performance contracts for 2014-2017 with public research organizations</p> <p>The 2014-2017 multi-year agreement of the NRF</p> <p>The "Proof of concept" programme (POC)</p> <p>OECD study on the nation's R&D and Innovation system (early 2015)</p> <p>The Horizon 2020 programme at the national level</p> <p>The INTER programme of the NRF</p>	<p>integration of IBBL and the Health PRC into LIH.</p> <p>Establishment and management of the Max Planck Institute Luxemburg for international, European and Regulatory procedural law.</p> <p>Concentrating the nation's R & D effort on a limited number of priority domains</p> <p>Establishment of a collaborative trans-institutional (virtual) research centre to resolve a well-defined socio-economic problematics.</p> <p>Ensure performance based financing through an institutional review.</p> <p>Promote the quality and scientific excellence of research as well as its improvement by emphasizing PPPs.</p> <p>Promote the evolution from excellent research to economically viable innovation.</p> <p>Analyze the level and extent of quality of the implementation of recommendations issued previously and prepare a report on the strengths and weaknesses of R&D in Luxembourg.</p> <p>Better integration of Luxembourg players in scientific and technological cooperation programmes and initiatives at the European and wider international levels.</p> <p>Finance the participation of Luxembourg</p>
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	<p>The ATTRACT and PEARL programmes (NRF)</p> <p>Professionalization of the doctorate degree through the implementation of a series of doctoral studies schools</p> <p>Invitation of the Government to national public research entities to publish in "Open Access"</p> <p>The <i>Digital Lëtzebuerg</i> national initiative</p> <p>Merging of the country's scientific libraries into a network (bibnet.lu) and optimization of the flow and transfer of scientific knowledge through the implementation of a new business model for the Luxembourg Consortium.</p> <p>2. <u>For the private research sector</u></p> <p>The Smart specialization strategy</p> <p>Performance contract with Luxinnovation</p> <p>Law dated 5 June 2009 for promoting RDI (currently being revised)</p> <p>Initiative «Luxembourg cluster initiative»</p>	<p>researchers in international projects.</p> <p>Attract exceptional research staff for areas of strategic importance at different career stages.</p> <p>Improve the professional competence of doctoral candidates.</p> <p>Make a maximum number of scientific publications widely available on line at no cost.</p> <p>Increase digital services of research institutions.</p> <p>Extend visibility and accessibility of documentary resources available to researchers, students and other interested persons. Maintain and develop excellent quality documentary tools and services while optimizing costs, so as to increase the attractiveness of Luxembourg's scientific base, to promote the development of knowledge and to stimulate innovation and creativity.</p> <p>Diversify the economy, while concentrating on a limited number of specific sectors. Industry, eco-technologies, logistics, health technologies and ICT.</p> <p>Institutional evaluation of performance.</p> <p>Promote RDI efforts throughout the innovation chain.</p> <p>Assemble resources and financing to achieve critical mass and accelerate knowledge transfer.</p>
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	<p>Establishment of the Luxembourg Intellectual Property Institute (IPIL), operational since beginning 2015</p> <p>Establishment of the Technoport S.A incubator for tech start-ups</p> <p>Implementation of the House of BioHealth for biotech, ICT and cleantech start-ups (2014)</p> <p>Implementation of the Seed4Start cross-border capital investment platform</p> <p>Planning and establishment of a "Seedfund" type financing structure (PPP)</p> <p><i>Fit4Innovation</i> programme</p> <p>Incentive and supervision measures for the participation of Luxembourg companies in European programmes such as Horizon 2020, etc. Support measures for Fit4Horizon2020</p>	<p>Promote the development of intellectual property for the requirements of the economy, federating national and international skills into a coherent whole and placing them at the disposal of economic and institutional entities to constitute a driver for growth.</p> <p>Centralized management of the various incubator infrastructures for companies (start-ups and spin-offs).</p> <p>Support PPPs and interdisciplinary synergies.</p> <p>Facilitate the matching of supply and demand in the sphere of risk capital.</p> <p>Invest in young, innovative companies in the ICT sector.</p> <p>Free up resources within SME and crafts industry to promote innovation and growth in the medium and long term.</p> <p>Support Luxembourg's participation in European programmes and increase the rate of success; in 2014, the success rate was nearly 20% and financial return amounted to € 19.8 million.</p>
<p>National target for the reduction of greenhouse gas emissions Reduction of emissions outside of EU ETS -20% compared to 2005 (emissions of around 8,085 Mt CO₂-equivalent in 2020)</p>	<p>Second CO₂ Emissions Reduction Action Plan</p> <p>Aid scheme for energy savings and the use of renewable energy in the residential sector through the PRIME House programme</p> <p>Electric mobility: achieve the objective of 10% private vehicles, a total of 40,000 vehicles, powered electrically by 2020.</p>	<p>Reduce GHG emissions.</p> <p>Increase requirements in the area of energy performance for new residential buildings and reduce CO₂ emissions.</p> <p>Develop electric mobility in order to reduce CO₂ emissions.</p>

	<p>Implement the Climate Pact with municipalities.</p> <p>Promote the use of public transportation and soft mobility, through the MoDu strategy.</p> <p>Develop the tramway network in the City of Luxembourg</p> <p>Implement the Transportation sector plan</p> <p>The law dated 18 February 2010 on the protection of the environment and the rational use of natural resources</p> <p><i>Measures implemented under country-specific recommendation no. 1 in July 2015 in Luxembourg</i></p>	<p>Reduce GHG emissions and the energy bill on municipal territory and stimulate local and regional investments.</p> <p>Develop efficient public transportation infrastructure so as to reduce CO₂ emissions through less private transport.</p> <p>Develop an efficient public transportation system that assimilates the economic and demographic development of the capital and the country.</p> <p>Provide a regulatory framework for MoDu strategy measures by reserving corridors for road and rail infrastructure, promoting soft mobility and managing parking locations in urban areas.</p> <p>Encourage environmental protection measures and the rational use of resources within companies.</p> <p><i>(see country-specific recommendation no. 1)</i></p>
<p>Renewable energy target 5.45% on average for 2015-2016 11% for 2020</p>	<p>National action plan in the area of renewable energy containing 37 measures (2010)</p> <p>Implementation of the Grand-Ducal regulation introducing a support mechanism for biogas production facilities in the natural gas networks (2011)</p> <p>Profitability analysis of existing biogas facilities and a Grand Duchy draft regulation that takes into account this analysis for possible government subsidies (end 2014)</p> <p>Review of the possibility of introducing a feed-in tariff for</p>	<p>Accomplish Luxembourg's national objective set by Directive 2009/28/EC</p> <p>Increase the share of biogas production facilities</p> <p>Increase compensation for fed-in biogas in order to guarantee functioning of the concerned facilities in the medium-term.</p> <p>Add maximum value to the potential of renewable energy sources</p>

	<p>heat produced by combustion installations that recycle biomass materials (to be finalized in 2015)</p> <p>Grand-Ducal regulation concerning energy performance of residential buildings (May 2012)</p> <p>Grand-Ducal regulation concerning energy performance of functional buildings (May 2014)</p> <p>Grand-Ducal regulation concerning energy performance of functional buildings (January 2015)</p> <p>Aid schemes that promote the rational use of energy and highlight renewable energy sources in the housing sector for 2013- 2016.</p> <p>The Grand-Ducal regulation of August 2014 regarding electrical production based on renewable energy sources.</p>	<p>Increase requirements in the area of energy performance in new residential buildings and additions to existing residential buildings. Beginning in 2015, stricter requirements for residential buildings entered into effect. On the average, these included Classes B – A. As from 2017, new residential buildings must meet the highest performance standards of the energy performance certificate, A-A.</p> <p>Introduce the concept of a "Nearly Zero Energy Building", setting a deadline for achieving this standard and introduce a requirement to indicate energy performance in functional buildings in advertisements.</p> <p>Increased energy performance requirements of new functional buildings beginning on 1 July 2015.</p> <p>Accelerate the deployment of renewable energies and energy efficient technologies in the domestic sector and support the achievement of objectives in the area of renewable energy and energy efficiency.</p> <p>Increase the production of electricity based on renewable energy resources.</p> <p>Determine what progress has been achieved</p>
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	<p>Update of the study of the potential of renewable energy in Luxembourg (beginning of 2014)</p> <p>Grand-Ducal regulation of February 2011 setting sustainability criteria for biofuels and bioliquids.</p> <p>The draft Grand-Ducal regulation that determines the functionalities and technical specifications, the number of charging stations, the overall scheduling and the organization of a charging infrastructure for electric vehicles in Luxembourg(2014).</p> <p>The INTERREG IV A «Electra» project (initiated in 2012)</p> <p>Mechanisms for cooperation: Possible realization of cooperation agreements in 2015</p>	<p>and what is achievable in the various branches of renewable energy production.</p> <p>Regulate the mix of biofuels in fuel made available for consumption nationally (2014: 4.75% / 2015: 5.4%).</p> <p>Implement electro-mobility in Luxembourg.</p> <p>Draw up a concept in the domain of cross-border electric mobility using complementary electro-mobility for public transportation.</p> <p>Increase renewable energy in the EU.</p>
<p>National energy efficiency target 14.06% for 2016 Indicative national objective for 2020: Final energy use of 48.789 GWh</p>	<p>Catalogue of measures</p> <p>Grand-Ducal regulation concerning energy performance of residential buildings (May 2012)</p> <p>Grand-Ducal regulation concerning energy performance of functional buildings (May 2014)</p>	<p>Improvement in energy efficiency and achievement of a cumulative objective of energy savings at the final use stage during the period from 1 January 2014 to 31 December 2020.</p> <p>Increase requirements in the area of energy performance in new residential buildings and additions to existing residential buildings. Beginning in 2015, stricter requirements for residential buildings entered into effect. On the average, these included Classes B – A. As from 2017, new residential buildings must meet the highest performance standards of the energy performance certificate, A-A.</p> <p>Introduce the concept of a "Nearly Zero Energy Building", set a date for achieving this standard and introduce a requirement to indicate energy performance in functional buildings in advertisements.</p>

	<p>Implementation of a register of energy performance certificates for residential buildings, to be finalized in 2015</p> <p>Grand-Ducal regulation concerning energy performance of functional buildings (January 2015)</p> <p>National plan aimed at increasing the number of near zero energy buildings to be finalized in 2015.</p> <p>Inventory of central government buildings having a total useful surface area in excess of 500 sq. m that are heated and/or cooled".</p> <p>Draft laws to introduce a legal basis in Luxembourg law for the mandatory energy efficiency provision under directive 2012/27/EU (July 2014) / Grand-Ducal regulation (December 2014)</p> <p>Voluntary agreement with the industrial sector (2011-2016)</p> <p>Laws introducing intelligent measurement systems on the electrical and natural gas markets in August 2012</p>	<p>Implement a compliance system and an accounting tool that can produce statistical analyses of energy performance for buildings.</p> <p>Increase energy performance requirements of new functional buildings beginning on 1 July 2015.</p> <p>Increase energy performance in buildings.</p> <p>Increase energy performance through renovations of 3% of the total floor area of building in this inventory each year.</p> <p>All suppliers shall achieve their share of the overall energy objective prorated by each supplier's market share.</p> <p>Improve energy efficiency and implementation of new or renewable energy sources in participating companies in the industrial sector.</p> <p>Determine a framework and schedule for the setting up of a nationwide shared and interoperable infrastructure for smart metering. The beginning of the generalized rollout is set for no later than July 2015.</p>
<p>National early school leaving target Maintain school drop-out rates below 10%</p>	<p>Law on the organizational structure of the Guidance Centre and the reorganization of academic and professional guidance (February 2015).</p> <p>Recognition of diplomas and qualifications, as well as validation of acquired professional experience</p> <p>Reform of language teaching programmes: Diversification of</p>	<p>Optimize guidance of young people in the educational system.</p> <p>Trim down the validation procedure and increase support mechanisms for requestors.</p> <p>Address the growing heterogeneity of the</p>

	<p>the programme to address the diversity of linguistic profiles, introduction of a "linguistic bath" early on in the process for children aged 1 to 3, implementation of a new international school beginning in 2016, with classes in French and English, adult language training</p> <p>Establishment of a national representation structure for parents</p> <p>Draft legislation for an observatory on scholastic retention (to be presented in 2015)</p> <p>New academic offerings for students with difficulties involving the Second Chance school, cultural classes for students with behaviour difficulties, special classes for students held back a year, guidance and professional introductory courses and specialized structures for students with severe behaviour disorders.</p> <p>The "school integration" pilot project (launched in 2013-2014)</p> <p>Analysis of NEET qualified youth (National Youth Service)</p> <p>Introduction of several new mechanisms for helping young adults get back into educational programmes, to promote insertion and to increase qualifications levels. The 9+ programme, in-service training for ward aides, in-service social instructors, basic instruction and general training and the Learn4Success project</p>	<p>population by showing greater flexibility.</p> <p>Involve parents more in school activities so as to establish a genuine collaboration mentality between schools and families.</p> <p>Enable more systematic follow-up of school drop-outs and regular coordination of the persons involved.</p> <p>Ensure follow-up of students in difficulty.</p> <p>Identify students who risk dropping out in the intermediate cycle and provide individual support to a sampling of high risk students so as to develop an early detection system over the long term.</p> <p>Better assimilate the links between dropping out and the situation of NEET youths.</p> <p>Help young adults get back into educational programmes, promote insertion and increase qualifications levels.</p>
<p>National target for tertiary education Ensure that 66% of the working</p>	<p>The law dated 24 July 2014 on State financial aid for higher education that went into effect for the 2014-2015 school</p>	<p>Increase in the educational level of the population to obtain better matches between</p>

<p>population between the ages of 30 and 34 receive a university education and earn university degrees between now and 2020.</p>	<p>year.</p> <p>Extend the public and private programme offering of higher education in Luxembourg</p> <p>Increase financial resources for higher education and research in Luxembourg</p> <p>Final installation of the University of Luxembourg on the Belval site for the beginning of the 2015-2016 school year.</p> <p>Agreement in May 2015 on automatic mutual and generic recognition of higher education diplomas in the Benelux countries.</p> <p>Construction of a new national library in Luxembourg (completion scheduled for 2018)</p>	<p>peoples' qualifications and job market offerings, using a modular concept including an element of social selectivity.</p> <p>Increase the educational level of the population to obtain better matches between peoples' qualifications and job market offerings.</p> <p>Increase R&D capacities in terms of higher education and of number of students.</p> <p>Group services on a single site in order to optimize available resources.</p> <p>Facilitate cross-border mobility of workers from Benelux countries.</p> <p>Rationalize and modernize operations by grouping all collections and services.</p>
<p>National poverty target Reduce the number of persons under the threat of poverty or social exclusion by 6,000 people by 2020.</p>	<p>Law dated 19 December 2014 on the implementation of the Package for the future: elimination of the education and maternity benefits.</p> <p>Project for building a minimal food consumption basket in Luxembourg (launched in 2014)</p> <p>Continue the policy of providing socio – educational welcoming structures to children aged 0-12</p>	<p>Eliminate two services conceived initially for women who had no professional career and for which the purposes no longer correspond to the realities of family situations or the requirements of the working world today.</p> <p>Prepare a group of consumables that represents the minimum requirements of households in terms of goods and services.</p> <p>Increase the rate of employment amongst women and single parent families, break the cycle of inter-generational transmission of poverty, promote social inclusion and social cohesion in a multi-cultural society.</p>

	<p>Making beneficiary parents aware of the Guaranteed Minimum Income (GMI) mechanism for using welcome centre checks.</p> <p>Increasing activation rates as part of the GMI mechanism</p> <p>Promote measures favouring the transition of young people from academic to professional life and those motivating them to return to school Develop an activation and information platform, Level-up projects, more inclusive volunteer services programmes, a dynamic NEET database.</p> <p>The social aid law: non-reimbursable financial help through the Social Offices and the social third party insurance system entering into effect in 2013</p> <p>National strategy to counter homelessness and exclusion linked to housing for 2013-2020, such as the Housing First pilot project</p> <p>Fund for European aid to the most deprived: food aid and/or basic material assistance to the most deprived (end 2014)</p>	<p>Increase the availability of parents for entry into the labour market, promote social inclusion and social cohesion in a multi-cultural society</p> <p>Promote access to jobs and social inclusion.</p> <p>Promote social inclusion amongst young people.</p> <p>Reduce situations of material deprivation and promote social inclusion.</p> <p>Reduce homelessness and housing-based exclusion.</p> <p>Use this to respond to food and basic needs-related distress situations.</p>
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7. Divergence from latest SP.

Table 7. Divergence from latest SP.

	SEC code	Year	Year	Year
		2014	2015	2016
		% of GDP	% of GDP	% of GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		0.6	0.1	0.7
Draft Budgetary Plan		1.4	0.1	0.5
Difference		0.8	0.1	-0.1
General government net lending projection at unchanged policies	B.9			
Stability Programme		0.0	-1.0	-0.7
Draft Budgetary Plan		0.0	-0.7	-0.9
Difference		0.0	0.3	-0.2

8. Methodological aspects

Table 8. Methodological aspects

Estimation technique	Step of the budgetary process for which it was used	Relevant features of the model/ technique used	Assumptions
Macroeconomic forecasts	Estimates of revenue and estimate of some expenditures drivers (such as the mobile wage scale)	Macro-econometric model developed by STATEC. For more information, see the following link: http://www.statistiques.public.lu/catalogue-publications/cahiers-economiques/2007/PDF-Cahier-104-2007.pdf	Use of technical assumptions for a certain number of macroeconomic variables, such as fuel prices, raw materials prices, exchange rate and interest rates. In view of the importance of the financial sector to Luxembourg and the role of cross border persons in the labour supply, the model features properties in the area of the banking sector, with special use of a stock market index forecast and forecasts of foreign labour supply.
Estimates of budgetary revenues	Used to prepare the draft budget	Use of parametric equations and microeconomic data	Macroeconomic forecasts
Impact of discretionary measures	Used to prepare the draft budget	Budgetary estimates from microeconomic data. No macroeconomic impact included in the macroeconomic scenario	Macroeconomic forecasts