Brussels, 18.4.2024
C(2024) 2626 final

COMMISSION OPINION

of 18.4.2024

on the Draft Budgetary Plan of Luxembourg

{SWD(2024) 99 final}

(Only the French text is authentic)

COMMISSION OPINION

of 18.4.2024

on the Draft Budgetary Plan of Luxembourg

(Only the French text is authentic)

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013[1] lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 8 March 2023, the Commission adopted a Communication[2] providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact would be deactivated at the end of 2023.

4. On 26 April 2023, the Commission presented three legislative proposals[3] to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals was to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aimed at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. A provisional political agreement on the legislative proposals between the co-legislators was reached at the trilogue meeting of 9-10 February 2024. The European Parliament is expected to vote on the new Regulation on the preventive arm in April 2024, before the parliamentary recess. After the Parliament's approval, the Council is expected to adopt the new Regulation. The Council is also expected to adopt the Regulation amending the corrective arm and the Directive amending the Directive on national budgetary frameworks. In the meantime, as a new legal framework is not yet in place, the current legal framework continues to

---

[1] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

[2] Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

[3] Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

apply. The fiscal component of the spring 2023 country-specific recommendations included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

5. As announced in its fiscal policy guidance for 2024[4], the Commission will propose in spring 2024 to the Council to open deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.

6. The Recovery and Resilience Facility[5] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives')[6]. The Facility will strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

7. The EU economy entered 2024 on a weaker footing than previously expected. At the same time, the sharp fall in energy prices was followed by a broad-based and faster-than-expected moderation of price pressures. Despite mild upward pressure from higher shipping costs in the wake of Red Sea trade disruptions, underlying inflation continues on a steady downward path. It is therefore essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, any remaining emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING LUXEMBOURG

8. On 13 October 2023, Luxembourg submitted a Draft Budgetary Plan on the basis of unchanged policies, in compliance with Regulation (EU) No 473/2013. This was due to the fact that, after the general elections of 8 October 2023, the new government

[4] Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

[5] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, (OJ L 57, 18.2.2021, p. 17).

[6] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

took office on 17 November 2023. The Commission adopted an opinion on the no-policy-change Draft Budgetary Plan on 28 November 2023[7]. In its opinion, the Commission invited Luxembourg's authorities to submit to the Commission and the Eurogroup, an updated Draft Budgetary Plan for 2024 in line with the Council Recommendation to Luxembourg of 14 July 2023[8], as soon as a new government took office and, as a rule, at least one month before the draft budget law was planned to be adopted by the national parliament.

On 6 March 2024, Luxembourg submitted an updated Draft Budgetary Plan for 2024 (hereafter, "the Draft Budgetary Plan"). On that basis, and taking into account the Council Recommendation to Luxembourg of 14 July 2023, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. According to the Draft Budgetary Plan, Luxembourg's real GDP is projected to grow by 2.0% in 2024 (-1.0% in 2023), while HICP inflation is forecast at 1.9% in 2024 (2.9% in 2023). According to the Commission forecast[9], Luxembourg's real GDP is projected to grow by 1.7% in 2024 (-1.1% in 2023, outturn data), while HICP inflation is forecast at 2.6% in 2024 (2.9% in 2023, outturn data).

The main difference between the 2024 HICP inflation projections stems from higher energy and services prices in the Commission forecast.

Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission forecast for 2024.

Luxembourg complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

10. According to the Draft Budgetary Plan, Luxembourg's general government deficit is projected to increase to 1.2% of GDP in 2024 (from 0.7% in 2023). This is mainly driven by increases in compensation of employees and social benefits, the upward adjustment of personal income tax brackets following several indexations, as well as support measures for households and firms in response to the high energy prices and inflation (decided under the "Solidaritéitspak"). The general government debt-to-GDP ratio is set to increase to 26.5% at the end of 2024 (from 25.2% at the end of 2023).

In turn, according to the Commission forecast, Luxembourg's general government deficit is projected to increase to 1.6% of GDP in 2024 (from 1.3% in 2023, outturn data), while the general government debt-to-GDP ratio is set to increase to 27.2% at the end of 2024 (from 25.7% at the end of 2023, outturn data).

---

[7] Commission Opinion of 21.11.2023 on the Draft Budgetary Plan of Luxembourg (C(2023) 9514 final).

[8] Council Recommendation on the 2023 National Reform Programme of Luxembourg and delivering a Council opinion on the 2023 Stability Programme of Luxembourg, OJ C 312 16, 1.9.2023, p. 145.

[9] In order to assess the Draft Budgetary Plan, the Commission produced an ad-hoc update of its autumn 2023 forecast and with a cut-off date of 4 April 2024, taking into account the information on new fiscal policy measures that are mentioned in the Draft Budgetary Plan. Additional information from this updated forecast is published in the accompanying Fiscal Statistical Tables.

The main difference between both sets of projections reflects the later cut-off date of the Commission's forecast, which includes the 2023 deficit and debt outturn data. The deficit in 2023 turned out to be 0.6% of GDP higher compared to the Draft Budgetary Plan. This difference can be mainly explained by higher expenditure at local government level and lower revenues of VAT receipts.

11. Based on the Commission's estimates, the fiscal stance[10] is projected to be expansionary at 0.8% of GDP in 2024, following an expansionary fiscal stance of 3.2% in 2023. The fiscal stance in 2024 is mainly driven by new revenue-decreasing measures such as the update of the tax brackets for personal income tax, compensation for companies for the third indexation tranche in 2023 and support measures for the construction and housing sector, which are partly compensated by the reversal of the 2023 VAT-rate reduction.

12. The Draft Budgetary Plan assumes that expenditure amounting to less than 0.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023. This is broadly in line with the assumptions underlying the Commission forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Luxembourg.

13. According to the Commission forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are expected to remain in place beyond the end of 2024. They consist of measures extended from 2023 (in particular: energy support measures to limit the increase in gas and electricity prices, subsidies to contain heating costs, tax measures to support household purchasing power, and measures to support firms' competitiveness). Energy support measures that, according to the Draft Budgetary Plan, are not phased out in the course of 2024, are, in principle, assumed in the Commission forecast as also having a budgetary impact in 2025.

In addition, the Draft Budgetary Plan includes new expenditure and revenue measures for 2024 that are not directly related to energy price developments. On the expenditure side, these include higher compensation of employees, capital transfers and subsidies, as a whole, amounting to 0.4% of GDP. In turn, on the revenue side, these include an increase in the excise duty on tobacco products, a reduction in personal income tax through an update of the tax brackets following inflation developments, and tax measures to support the construction and housing sectors ("Paquet Logement"), which in total will lead to an estimated reduction in government revenue of 1.1% of GDP. On top of these new measures, there is a deficit-reducing impact in 2024, mainly from the reversal of the VAT reduction applied in 2023 and the retroactively applied tax credit in 2023 (combined 0.4% of GDP), in addition to the phase-out of part of the energy support measures (see recital 15).

[10] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

14. On 14 July 2023, the Council recommended that Luxembourg ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure[11] in 2024 to not more than 4.8%. According to the Commission forecast, Luxembourg's structural balance is projected at -0.3% of GDP this year (from 0.0% in 2023), thereby falling below the country's medium-term budgetary objective (MTO) of a balanced budget in structural terms. According to the Commission forecast, Luxembourg's net nationally financed primary expenditure is projected to increase by 6.8% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.9% of GDP in 2024 and risks being not in line with what was recommended by the Council.

15. Moreover, the Council recommended that Luxembourg take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Luxembourg should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission forecast, the net budgetary cost[12] of energy support measures is projected at 0.9% of GDP in 2023, 0.5% in 2024, and 0.3% in 2025. In particular, the measures to limit the increase in gas and electricity prices and the subsidies to contain heating costs are assumed to remain in force in 2024 and 2025[13]. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.5% of GDP in 2024, whereas net nationally financed primary expenditure[14] provides an expansionary contribution to the fiscal stance of 0.8% of GDP in that year.

The energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. This also risks being not in line with the Council recommendation.

The net budgetary cost of energy support measures targeted at protecting vulnerable households and firms is estimated at 0.1% of GDP in 2024 (0.4% in 2023), of which less than 0.1% of GDP preserve the price signal to reduce energy demand and increase energy efficiency in 2024 (0.1% in 2023). Most energy support measures do

---

[11] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

[12] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers. The definition of energy support measure of the Commission is 'narrower' than the one used in the Solidaritéitspak, as for the Commission there needs to be a direct link between the measure and the energy price.

[13] Measures that, according to the Draft Budgetary Plan, remain in place until the end of 2024 are, in principle, assumed in the Commission 2023 autumn forecast as having a budgetary impact also in 2025.

[14] This contribution is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

not appear to be targeted at the most vulnerable households and do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

16. In addition, the Council also recommended that Luxembourg preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions.

According to the Commission forecast, nationally financed public investment is projected to decrease marginally to 4.6% of GDP in 2024 (from 4.7% of GDP in 2023). This is mainly caused by the expected delay in the delivery of a military satellite, which is now expected to take place in 2025. Taking into account that Luxembourg's public investment-to-GDP ratio is expected to increase again in 2025 in the Commission forecast and to remain at a high level (as percentage of GDP), nationally financed public investment in 2024 is assessed as being in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at below 0.1% of GDP in 2024.

17. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Luxembourg continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investment and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position. The Draft Budgetary Plan does not include budgetary projections beyond 2024.

18. Finally, on 14 July 2023, the Council also recommended that Luxembourg address the long-term sustainability of the pension system, in particular by limiting early retirement options and by increasing the employment rate for older workers, and to increase action to effectively tackle aggressive tax planning, in particular by ensuring sufficient taxation of outbound payments of interest and royalties to zero/low-tax jurisdictions. While no new measures were taken to address the long-term sustainability of the pension system, with respect to actions to effectively tackling aggressive tax planning the parliament has adopted the bill on minimum effective taxation to transpose into national legislation the Council Directive (EU) 2022/2523 of 15 December 2022 ("OECD Pillar 2").

19. According to the Commission forecast, the growth of net nationally financed primary expenditure is projected to not respect the recommended maximum growth rate in 2024.

Moreover, according to the Commission forecast, and taking into consideration the information included in Luxembourg's Draft Budgetary Plan, the emergency energy support measures are not expected to be wound down as soon as possible in 2023 and 2024. The related savings are not projected to be fully used to reduce the general government deficit in 2024.

However, Luxembourg is assessed as planning to preserve nationally financed public investment. Luxembourg should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Luxembourg risks being not in line with the Council Recommendation of 14 July 2023. Therefore, the Commission invites Luxembourg to take the necessary

measures within the national budgetary process to ensure that fiscal policy in 2024 will be in line with the Council Recommendation of 14 July 2023.

At the same time, the Commission projects Luxembourg's headline budget deficit at 1.6% of GDP in 2024, below the Treaty reference value of 3% of GDP, and the government debt-to-GDP ratio at 27.2% in 2024, below the Treaty reference value of 60%.

The Commission is also of the opinion that Luxembourg has made limited progress with regard to the structural elements of the fiscal recommendations made by the Council on 14 July 2023, and thus invites the Luxembourg's authorities to accelerate progress. A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	DBP	COM	DBP	COM
Real GDP (% change)	1.4	-1.0	-1.1 (&)	2.0	1.7
HICP inflation (%; annual average)	8.2	2.9	2.9 (&)	1.9	2.6
General government balance (% of GDP)	-0.3	-0.7	-1.3 (&)	-1.2	-1.6
Primary balance (% of GDP)	-0.1	-0.5	-0.9 (&)	-0.9	-1.3
General government gross debt (% of GDP; at end-year)	24.7	25.2	25.7 (&)	26.5	27.2
	COM	**COM**		**COM**	
Fiscal stance (*) (% of GDP)	-1.5	-3.2		-0.8	
Fiscal adjustment (**) (% of GDP)	-1.5	-3.2		-0.8	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	0.7	0.2		-0.5	
Growth in net nationally financed primary expenditure (% change) (A)				6.8	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				4.8	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				-2.0	
Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation (*****) (% of GDP)				0.9	

Notes:

(&) Outturn data.

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive)

sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(****) According to the Council Recommendation 'on the 2023 National Reform Programme of Luxembourg and delivering a Council opinion on the 2023 Stability Programme of Luxembourg, (OJ C 312, 1.9.2023, p. 153).

(*****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

'DBP' 2024 Draft Budgetary Plan, 'COM' Commission forecast.

Done at Brussels, 18.4.2024

For the Commission
Paolo GENTILONI
Member of the Commission