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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Luxembourg

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(only the French text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 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 EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area 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 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] 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'). The Facility is expected to 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

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] 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. 17–75.

Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

CONSIDERATIONS CONCERNING LUXEMBOURG

6. On 15 October 2024, Luxembourg submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Luxembourg of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of Luxembourg for the years 2025 to 2029[4], which the Commission expects the Council to adopt in a timely manner.

7. On 15 October 2024, Luxembourg submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[5]. The plan commits to net expenditure growth not exceeding 5.8% in 2025, 4.7% in 2026, 3.8% in 2027, 5.4% in 2028 and 4.7% in 2029. The Commission has assessed the medium-term fiscal-structural plan of Luxembourg and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

8. According to the Draft Budgetary Plan, Luxembourg's real GDP is projected to grow by 2.7% in 2025 (1.5% in 2024), while inflation is forecast at 2.2% in 2025 (2.5% in 2024). According to the European Commission Autumn 2024 Forecast, Luxembourg's real GDP is projected to grow by 2.3% in 2025 (1.2% in 2024), while inflation is forecast at 2.4% in 2025 (2.3% in 2024). Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 (and 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.

9. Based on the Commission's estimates, the fiscal stance[6] is projected to be expansionary by 0.3% of GDP in 2025, following an expansionary fiscal stance of 0.9% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Luxembourg, 26.11.2024, COM(2024)719 final.

[5] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[6] 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.

10. According to the Draft Budgetary Plan, Luxembourg's general government deficit is projected to stabilise at 0.6% of GDP in 2025 (same as in 2024), while the general government debt-to-GDP ratio is set to stabilise at 27.5% at the end of 2025 (as at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 8.0% in 2024 and 6.1% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is above the growth rate in the medium-term fiscal-structural plan submitted by Luxembourg on 15 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Luxembourg's general government deficit is projected to increase to 0.8% of GDP in 2025 (0.6% in 2024), while the general government debt-to-GDP ratio is set to increase to 27.6% at the end of 2025 (27.5% at the end of 2024). According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 7.8% in 2024 and 5.7% in 2025. The main difference between the two sets of projections is about the government deficit in 2025, which is mostly explained by lower revenues in the European Commission Autumn 2024 Forecast compared to the Draft Budgetary Plan. This reflects higher GDP growth and a tax richer GDP growth composition, with a higher contribution to GDP growth of domestic demand in the Draft Budgetary Plan than in the European Commission Autumn 2024 Forecast. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are broadly balanced and mainly relate to very open nature of the Luxembourg economy, which make it dependent on the fluctuation of the external environment.

11. The Draft Budgetary Plan assumes that expenditure amounting to 0.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, as in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Luxembourg.

12. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include measures to support the economic recovery through supporting the purchasing power of low-income households and reinforcing companies' competitiveness. On the expenditure side, these measures include the extension to 2025 of measures to mitigate the (economic and social) impact of high energy prices and the increase in a number of social benefits for low-income households. According to the Commission estimates, the overall additional impact of the revenue measures increases the government deficit and amounts to 0.5% of GDP in 2025.

13. According to the European Commission Autumn 2024 Forecast, Luxembourg's net expenditure is projected to increase by 5.7% in 2025, which corresponds to a cumulative growth of 14.0% in 2024 and 2025 taken together. These net expenditure growth rates would be the appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

14. On 21 October 2024, the Council recommended that Luxembourg take action to wind down the emergency energy support measures before the 2024/2025 heating season. However, the emergency energy support measures are not fully wound down by the 2024/2025 heating season. In particular, a measure to stabilise electricity prices is assumed to remain in force. According to the European Commission

Autumn 2024 Forecast, the net budgetary cost[7] of energy support measures is projected at 0.5% of GDP in 2024 and 0.1% of GDP in 2025. This is not in line with what was recommended by the Council. The net budgetary cost of energy support measures not targeted at protecting vulnerable households and firms is estimated at 0.1% of GDP in 2025, and they do not preserve the price signal to reduce energy demand and increase energy efficiency fully.

15. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to increase to 4.8% of GDP in 2025 (from 4.7% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to remain stable at 0.1% of GDP in 2025 (from 0.1% of GDP in 2024).

16. Finally, the Council also recommended Luxembourg to 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; to accelerate the adoption of a comprehensive land use policy and a property tax reform and prioritise the development of large-scale district projects on government-owned land; 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. In this regard, the plan includes policy measures aiming at combatting aggressive tax planning, increasing housing supply and improving long-term pension sustainability by limiting early retirement, Luxembourg acknowledges the need for continued efforts in these areas, providing a rationale for ongoing initiatives and expected future progress.

17. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Luxembourg is not fully in line with the Council Recommendation of 21 October 2024 as, according to the European Commission Autumn 2024 Forecast, and taking into consideration the information included in Luxembourg's Draft Budgetary Plan, the emergency energy support measures are not expected to be fully wound down before the 2024/2025 heating season. The energy support measures that are currently planned to remain in force do not appear to be targeted at protecting vulnerable households and firms and to preserve incentives for energy savings fully. At the same time, according to the European Commission Autumn 2024 Forecast, Luxembourg's net expenditure growth in 2025 is consistent with what was recommended by the Council on 21 October 2024. Therefore, the Commission invites Luxembourg to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2025 is in line with the Council Recommendation of 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

[7] 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.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	-1.1	1.5	1.2	2.7	2.3
2	HICP inflation	% change	2.9	2.5	2.3	2.2	2.4
3	General government balance	% GDP	-0.7	-0.6	-0.6	-0.6	-0.8
4	Primary balance	% GDP	-0.4	-0.2	-0.2	-0.3	-0.4
5	General government gross debt	% GDP	25.5	27.5	27.5	27.5	27.6
6	Fiscal stance (**)	% GDP	-2.9		-0.9		-0.3
7	Net expenditure growth (annual)	% change		8.0	7.8	6.1	5.7
8	Net expenditure growth (cumulative)	% change				14.6	14.0
			According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Luxembourg				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**5.8**	
10		% change			Cumulative	**14.2**	

Notes :
* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Luxembourg for the years 2025 to 2029.
** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in 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 GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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