

Budget Reform in Luxembourg

Overview of the Preparations

Version 1.0
Raymond.Bausch@igf.etat.lu

33rd Annual Meeting of OECD Senior Budget Officials
Reykjavik, 8 June 2012

Budget reform in Luxembourg

- Some general figures
- Description of Public Finances
 - Recent evolutions and current situation
- Main elements of the Luxembourg budgetary framework
- Budget Reform
 - Government Programme
 - OECD report:
Budgeting in Luxembourg: Analysis and Recommendations
 - EPC Peer Review
 - European Regulations
 - Topics
 - Workplan
 - Approach

Some general figures

From OECD Factbook 2010

	OECD Total	Luxembourg
Area	35.830.000 km [^] 2	2.586 km [^] 2
Population (2007)	1.183.167.000	480.000
Growth rate:	0,68%	1,56%
Foreign population as % of total population	n.a.	43,2%
GDP (2008)	\$ 40.135,5 Billion	\$ 41,40 Billion
GDP per capita	\$ 33.732	\$ 84.713
Added Value (Agr, Ind, Serv)		A: 0,3% I: 15,4% S: 84,3%

Public Finances

Recent evolutions and current situation

The Budget reform in 1999

- replaced the modified law of 1936 about public finances:
 - Improving the accounting rules
 - Introduction of management of commitments
 - Replacement of ex ante external control of payments done by the « Chambre des comptes » by ex ante internal control of payments done by a newly created administration, the « Direction du Contrôle financier(DCF) » which reports to the Minister of Finance
 - Introduction of systematic ex-ante controls of commitments by DCF
 - Introduction of entities with a special legal status, called « Service de l'Etat à gestion séparée », with a view to enhancing flexibility concerning management of expenditure while allowing these entities to keep the revenues generated by their activities.
 - Improving the information and statistical data available
 - The authorising officer has to make sure that the principle of sound financial management of expenditure is respected
 - The DCF controls the legality and regularity of all the operations
- transformed the « Chambre des Comptes » into a « Cour des comptes » (Court of Auditors)
 - Responsible for ex post audits

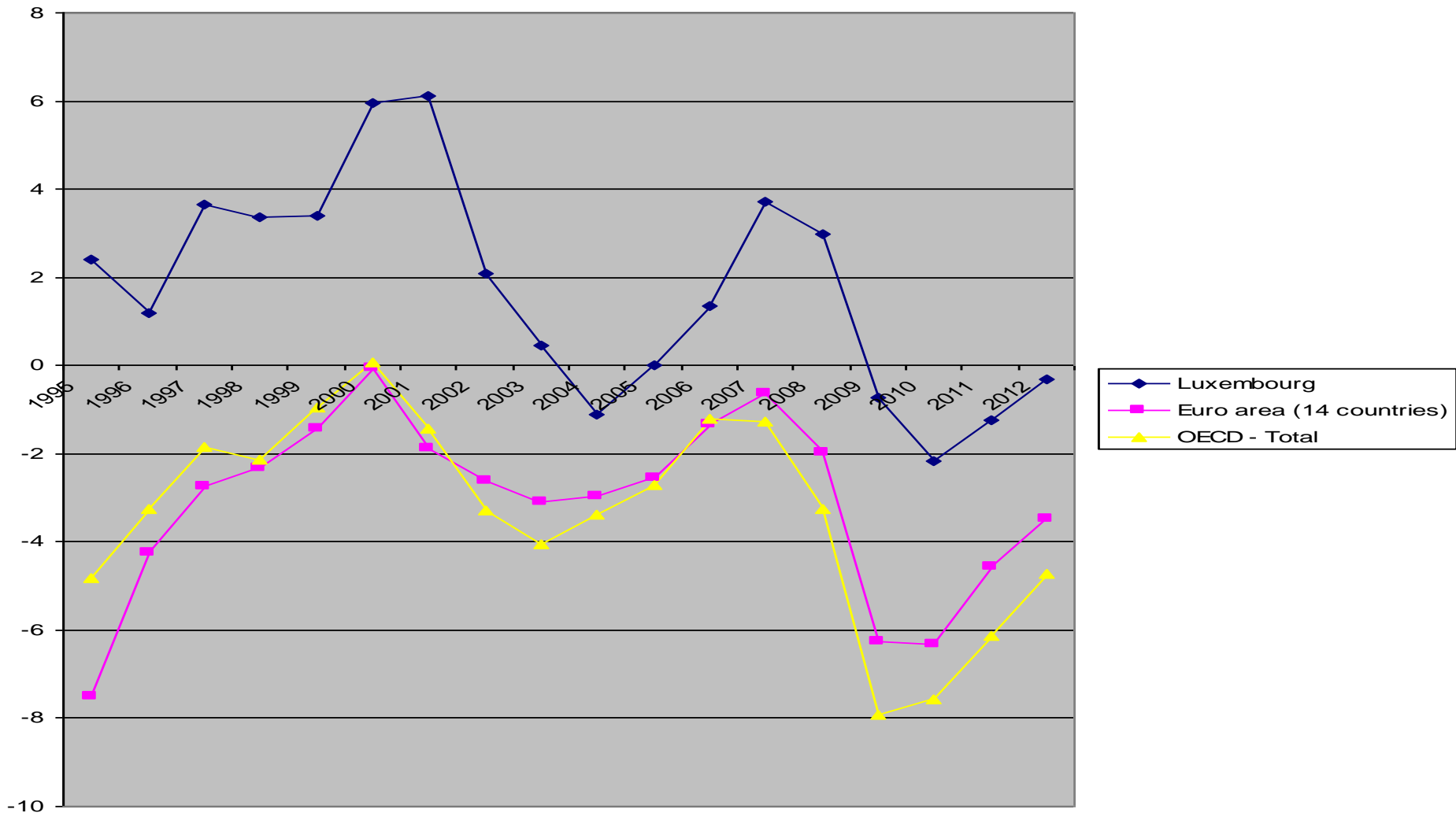
Public Finances

Recent evolutions and current situation

Since 1999

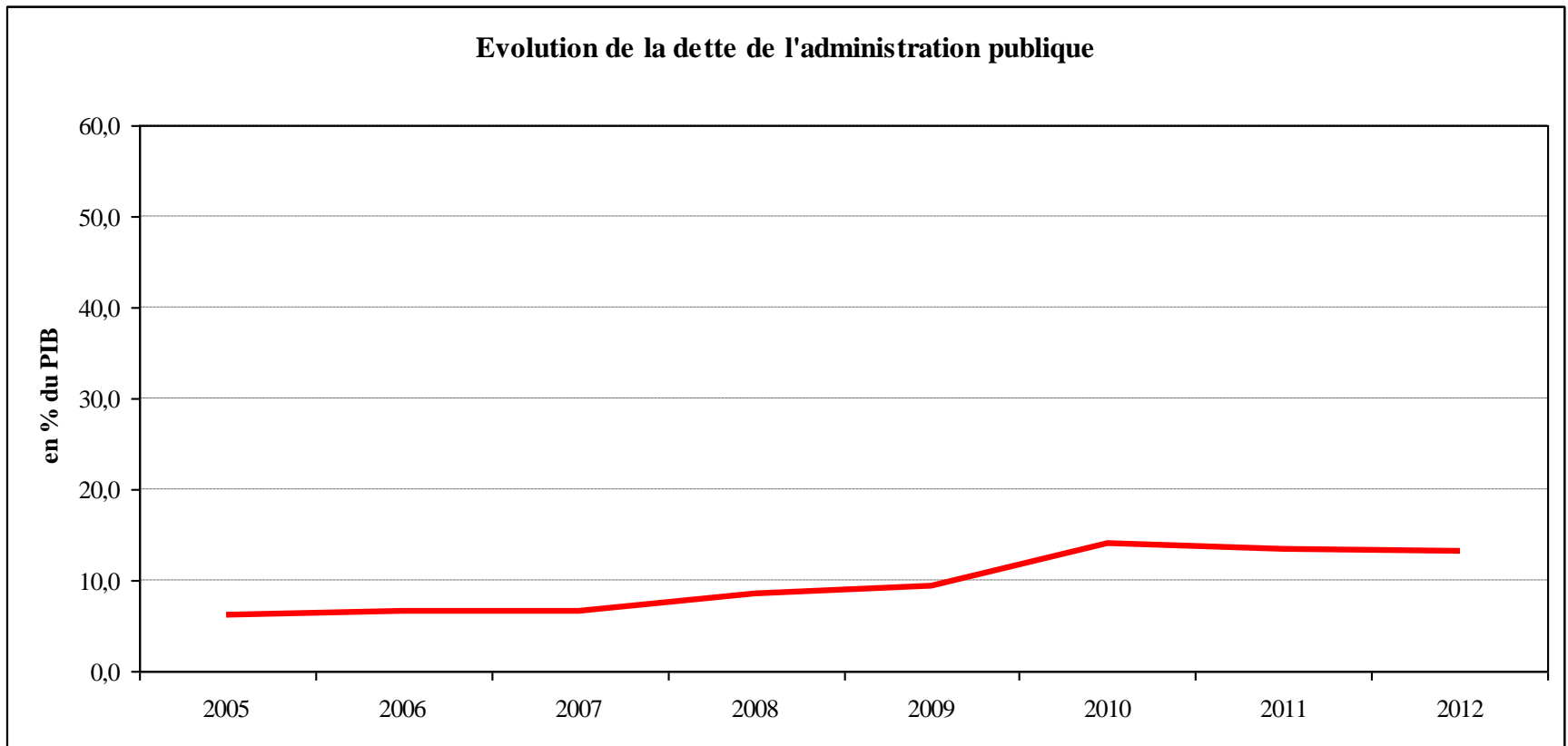
- More than 45 entities have been granted the status of « Services de l'Etat à Gestion Séparée »
- A volume 3 has been added to the annual Budget proposal presenting the budget in a SEC95 form and explaining the conversion
- Creation of a Forecasting committee

Government net lending, as a percentage of GDP



Source: OECD Economic Outlook 88 database

Evolution of Public debt



These figures do not take into account an exceptional 2 Billion EUR loan invested in two banks in 2008 (about 5% of GDP)

Main elements of the Luxembourg budgetary framework

- Fiscal rules
- Multiannual approach
- Institutions acting in the field of budgetary policy
- Organisation of the budget process
- Transparent and effective control and enforcement mechanisms
- Strong commitment through effective communication
- Adaptability to new challenges

Reform

In a dual concern for modernization of government operations and efficiency of public spending,

the Government will examine ways to improve the process of elaboration, implementation and evaluation of the budget.

(Excerpt of the Government Program 2009-2014)

Guidelines of the Budget Reform

- Adjustment and development of instruments for a more strategic budget process that reflects the policy priorities of the government and that complies with the new requirements of the European Union;
- Better control of the central government budget through enhanced short term, medium term and long term planning;
- More focus on the quality of public expenditures by enhancing transparency and accountability concerning outputs and outcomes, simplification of the budget classification and more emphasis on evaluation of policies

Cooperation with OECD

Summer 2010:

- the Minister of Finance of Luxembourg asks the OECD Secretariat to support an internal analysis of the budget process

November 2010

- Mission of OECD Experts in Luxembourg to meet experts from Finance Ministry and other line Ministries
- Study of internal documents
- Further discussions with experts

Summer 2011:

- First draft of the OECD Report:
« Budgeting in Luxembourg: Analysis and Recommendations »

22 November 2011:

- Presentation to the joint Budget Commissions of the Parliament by the Finance Minister

19 December 2011:

- Publication of the OECD Report: GOV/PGC/SBO(2011)8

Fiscal Frameworks EPC Peer Review in 2011

EPC (Economic Policy Committee) policy advice

Luxembourg's public finances are healthy. However, the estimated increase in pension and healthcare expenditure due to an ageing population is among the highest in the EU. Luxembourg is currently one of the only EU Member States without a medium-term budgetary framework underpinning the budget law or the Stability Programme. In this context, national authorities should introduce the following measures:

- Adopt a medium-term budgetary framework with multi-annual expenditure ceilings. The expenditure rule should cover all government subsectors and should take into account the increasing costs of ageing.

Excerpt of an occasional paper composed of fiches prepared by Commission services (Directorate-General for Economic and Financial Affairs) with a view to the peer review of national fiscal frameworks conducted under the auspices of the Economic Policy Committee in May and November 2011.

European Legislation about Fiscal Frameworks

February 1992:

- Maastricht Treaty of the European Union
(now the amended Lisbon Treaty)

June 1997

- Stability and Growth Pact (amended in 2005 and 2011)

November 2011:

- Six Pack including the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

23 November 2011:

- Two Pack Proposal by the European Commission (still under discussion)

2 March 2012:

- Signature of a Fiscal Treaty between 25 European Member States (still to be ratified)

Main Topics of the Budget Reform

- Transposition of the European Directive
- Ratification of the Fiscal Treaty
- Introduction of fiscal rules with a correction mechanism in national legislation
- Implementation of the main OECD Recommendations (except the recommendations about the steering of agencies that are less linked to budgets)

Remarks on OECD Recommendation to introduce a Medium Term Expenditure Framework

- It is planned to introduce a MTEF
- Choices under discussion:
 - Fixed or flexible framework: Fixed (1+3 years)
 - If fixed: rolling or periodic: Rolling
 - Sub-ceilings for sectors or ministries: for each mission (after the introduction of a new programme-based budget)
 - Coverage: entitlement spending, interest: Global
 - Can the ceiling(s) in out-years be filled with new spending starting in future years ?

Yes, as soon as a new spending is foreseen it has to be integrated.

Remarks on OECD Recommendation to introduce a Trend based balance rule

- If Luxembourg would adopt a trend based balance rule (zero structural deficit) with a threshold for MTEF revision of 3 percent, it would comply with:
 - the 3 percent headline deficit limit;
 - the principle of prudent fiscal policy making for central government (assuming an output elasticity of the tax yield ≥ 1);
 - The Fiscal Compact.
- If Luxembourg would adopt in addition a pay-as-you-go rule at the tax side, it would increasingly remain below the limits of the SGP and the Fiscal Compact.



In addition to the existing golden rule for the local sector and the budgetary rules for social security,

the Maastricht criteria, the rule of the Budgetary treaty on structural deficit, a rule on the increase of expenditure and a pay-as-you-go rule at the tax side are foreseen to be adopted in national law.

Remarks on OECD Recommendation to introduce a Spending Review

- The report recommends the introduction of a spending review procedure in Luxembourg;
- In contrast to programme evaluation, spending review is a part of the budget process; it is conducted under supervision of the Minister of Finance; it looks not only backward but also forward, and develops options for savings (not only efficiency savings but also options for lower service levels).
- In addition to an increase of Internal Audit and programme evaluations, the modalities of regular Spending Reviews are under discussion.



Work plan of the Budget Reform

October 2010 - June 2011:

Study

- Best practice in OECD countries via publications and visits
- Recommendations from national and international entities
- Advice on Luxembourg Budget from OECD secretariat

June – October 2011:

Preparation of Proposals

November – December 2011:

Proposals discussed in Parliament and Government

2012, 2013, 2014:

Implementation

Work approach of the Budget Reform

There is no existing perfect model with good results fitting to Luxembourg

Study

- Best practice in OECD countries via publications and visits
- Recommendations from national and international entities
- Advice on Luxembourg Budget from OECD secretariat

Papers on special subjects

- Extrabudgetary funds
- End of Year Reports
- Implications of the new European legislation
- Audit, Evaluations and Spending Reviews
- Programme Budgeting

Drafting of the Bill

Many Thanks to the OECD experts

- Visited and studied Luxembourg budget
- Listened to the Luxembourg experts
- Made useful recommendations based on justifications
- Indicated many interesting references
- Published a helpful report, even for non experts
- Continue to help in the reform process