

Law of 12 July 2014 on the coordination and governance of public finances (relevant extracts)

*This courtesy translation is provided for illustrative purposes only.
In case of discrepancies between the French and the English text, the French text shall prevail.*

Chapter 1 - Scope

Art. 1:

Within the meaning of the present law, the term "general government" refers, in accordance with the definitions of the European system of national and regional accounts (hereafter referred to by the acronym "ESA"), to the general government sector comprised of the sub-sectors of central government, local government and social security.

Chapter 2 - Medium-term Budgetary Framework

Art. 2:

The budgetary situation of the general government respects the objective of a balanced budget as defined by article 3, paragraph 1, of the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union signed in Brussels on 2 March 2012 and hereafter referred to as the "Treaty".

Art. 3:

(1) The medium-term budgetary objective of Luxembourg as defined by EU Regulation 1466/97 as well as the adjustment path towards this objective are fixed by the multi-annual financial programming law.

(2) The multi-annual financial programming law covers a period of 5 years, including the current year as well as the 4 subsequent years.

(3) The multi-annual financial programming law determines the paths of successive annual nominal and structural balances of general government accounts as well as the evolution of public debt and the decomposition of annual nominal balances by sub-sectors of general government according to ESA specifications.

(4) The multi-annual guidelines for public finances as defined by the multi-annual financial programming law include, for each fiscal year, the maximum amount of expenditures for the central government.

(5) The multi-annual financial programming law is accompanied by explanatory annexes presenting:

- the calculations underlying the computation from nominal balances to structural balances;
- the projections, for the multi-annual period that is covered, for each major expenditure and revenue item, with additional detail at the level of central government and social security;
- the description of those policies having an impact on the public finances of the general government, by important expenditure and revenue items, showing how the adjustment allows to reach the medium-term objectives in comparison to a no-policy-change scenario;
- an evaluation of the effect that planned policies are likely to have on the long-term sustainability of public finances.

Art. 4:

(1) The annual structural balance of the general government is at least equal to the medium-term objective as defined in article 3 of the Treaty or converges rapidly towards this objective on the basis of an appropriate adjustment path.

(2) The structural balance is the nominal balance adjusted for cyclical variations and one-off or temporary effects.

Art. 5:

Social security and local government contribute to the respect of the rules outlined in articles 2 to 4 through modalities for which they shall be associated to in their elaboration. The contribution of these sub-sectors is detailed in the context of the multi-annual financial programming law.

Chapter 3 - Correction mechanism in the presence of an observed deviation

Art 6:

(1) If the annual accounts of the general government sector show a significant deviation with respect to the medium-term objective or vis-à-vis the adjustment path, except in the presence of exceptional circumstances as foreseen in article 3, paragraph 3 of the Treaty, the government shall include, at the latest in the draft budget of the following year, measures to re-establish the trajectory as foreseen in the multi-annual financial programming law in the absence of deviations.

(2) A deviation is considered to be significant if it is greater or equal to 0.5% of nominal GDP for a given year or 0.25% of nominal GDP on average over two consecutive years.

(3) The deviation is observed by taking into account relevant data on the previous year, as found in the notification that is to be submitted on 1 April and 1 October by virtue of EU Regulation 479/2009 on the application of the protocol on the excessive deficit procedure as annexed to the European treaties.

Chapter 4 - Surveillance of the application of the rules by independent institution

Art. 7:

(1) An independent body within the meaning of article 3 of the Treaty is created by the name of “*Conseil national des finances publiques*”, hereafter referred to as the “*Conseil*”.

(2) The *Conseil national des finances publiques* is composed of the following members :

- 2 members proposed by the *Chambre des députés* from within the private sector, recognized for their economic and financial competence;
- 1 member proposed by the *Cour des comptes* ;
- 1 member proposed by the *Chambre de commerce*, the *Chambre des métiers* and the *Chambre d’agriculture*;
- 1 member proposed by the *Chambre des fonctionnaires et employés publics* and the *Chambre des salariés*;
- 2 members proposed by the Government.

Members of the *Conseil* are nominated and revoked by the Grand-Duke. They are nominated for a renewable term of four years. In case of a vacancy, the post shall be re-occupied, within a month, by a new member who shall finish the term of the member that is to be replaced.

Members of the *Conseil* shall exercise their mission in full neutrality and independence. The Chairman is elected by the members of the *Conseil*, with an absolute majority of votes.

(3) The *Conseil* is chaired by its Chairman or in his absence by the eldest member. The *Conseil* meets when the Chairman convenes, as often as the interests of the *Conseil* require. The *Conseil* validly deliberates when at least four of its members are present. It shall decide through simple majority voting by the members that are present. In case of equal votes, the Chairman’s vote shall be determining.

The members of the *Conseil* are obliged to respect the secrecy of the deliberations.

The *Conseil* shall elaborate internal rules of procedure fixing its functioning.

(4) The *Conseil* is assisted by a permanent secretariat which shall be comprised of *fonctionnaires* and *employés de l’Etat*. These persons can be seconded from their original administrations.

(5) The *Conseil* can proceed to the hearing of representatives from competent administrations in the area of public finances, statistics or economic forecasting. The *Conseil* can also call upon institutions and experts from the private sector.

(6) Indemnities and attendance fees for members of the *Conseil* are to be fixed by *règlement grand-ducal*.

(7) The operating costs of the *Conseil* are borne by the *budget de l'Etat* [central Government budget].

Art. 8.

The *Conseil national des finances publiques* is tasked with the following missions:

- a) surveillance of the adherence to the rules enunciated in articles 2 to 4 as well the application of the correction mechanism defined in article 6 ;
- b) evaluation of the macroeconomic and budgetary forecasts established for the benefit of financial budgetary programming of the general government ;
- c) any other evaluation provided by article 5, paragraph 2, of EU Regulation 473/2013.

The *Conseil national des finances publiques* shall publish its findings and evaluations.

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