

LUXEMBOURG

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

POPULATION AND GEOGRAPHY

AREA: **2 586** km²

POPULATION: **0.558** million inhabitants (2014),
an increase of 2.4% per year (2010-14)

DENSITY: **216** inhabitants/km²

URBAN POPULATION: **89.9%** of national population

CAPITAL CITY: **Luxembourg** (19.9% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **54.8** billion (current PPP international dollars)
i.e. 98 163 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 087 957**
(BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **18.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.892** (very high), rank **19**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
105 MUNICIPALITIES (COMMUNES) AVERAGE MUNICIPAL SIZE: 5 360 INHABITANTS	-	-	105

MAIN FEATURES OF TERRITORIAL ORGANISATION. The Grand Duchy of Luxembourg has a single tier of subnational government composed of 105 municipalities (*communes*). Article 107 of the 1868 Constitution defined them as autonomous authorities having a territorial basis and a legal personality with the responsibility of managing their own patrimony and interests (under central government control). In 2009 the government adopted a plan for promoting municipal mergers within the framework of the "Integrative Blueprint for Territorial and Administrative Reform in Luxembourg". The number of municipalities was cut from 116 to 105, a figure below the initial target. A new plan was launched in 2015, promoting continued voluntary mergers involving consultation with the population by referendum. In Luxembourg, the critical mass of a municipality was set at 3 000 inhabitants (and a minimum surface area of 100 km²).

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The 1988 Municipal Government Act (*loi communale*) provides a reference framework for the distribution of responsibilities across levels of government, making a distinction between mandatory responsibilities (including some which are shared with central government or delegated) and optional responsibilities. Main municipal tasks include pre-school and primary education, spatial planning and urban development, waste and water management, local roads and traffic regulation, environmental protection, public order and safety and firefighting services, civil status, social assistance, etc. Optional tasks include sports, culture, housing, tourism, facilities for the elderly, gas and electricity supplies etc.

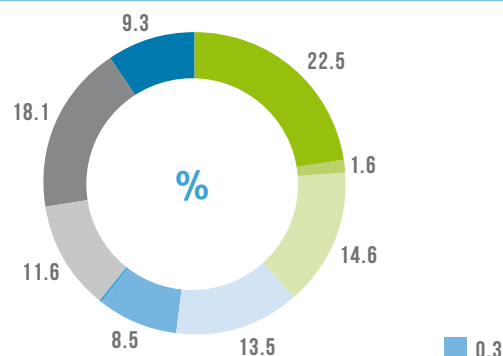
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	5.0%	11.5%	100%
CURRENT EXPENDITURE	3.6%	-	71.1%
STAFF EXPENDITURE	1.7%	20.7%	34.1%
INVESTMENT	1.4%	39.5%	28.7%

Luxembourg is a relatively centralised country. Municipal expenditure represents a lower share of GDP and total general government expenditure than the OECD average, including for unitary countries only (respectively, 13% of GDP and 29% of public expenditure). In this respect, Luxembourg is similar to countries such as Ireland, Israel, Turkey or New Zealand. However, Luxembourg is a small country, in terms of area and population and the distance between national and local is small. In terms of the level of expenditure per capita, Luxembourg is above the OECD unitary country average (5 230 USD vs 4 265 USD in the OECD), ranking 8th out of 25. Municipalities are key public investors and investment represents a large share of their expenditure.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Main areas of municipal spending include general public services, education, economic affairs (mainly transport) and environmental protection (waste, sewerage) and then recreation and culture. The share of education in municipal expenditure has decreased since 2009 from 24% in 2008 to 18% in 2013 following a law which assigned responsibility for infrastructure and operating costs to municipalities and no longer that of teaching, which was left to central government.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	5.4%	12.1%	100%
TAX REVENUE	1.4%	4.9%	25.6%
GRANTS AND SUBSIDIES	3.0%	-	55.1%
OTHER REVENUES	1.0%	-	19.3%

The share of tax in local revenue has been steadily decreasing for a number of years, in particular linked to the nature of the tax base. In contrast, the share of central government transfers has increased.

TAX REVENUE. All municipal taxes are own-source, the main one by far being, the municipal trade tax established in 1936 (*impôt commercial communal* or ICC) representing 91% of municipal tax revenue in 2013. This tax is levied on profits of commercial companies only. Each municipality determines a rate - approved by the central government - which is applied to the tax base. Tax collection is made by the central government and receipts are not redistributed in full directly: an horizontal equalisation mechanism redistributes ICC receipts among municipalities according to different criteria. The contribution of a municipality to this "Participation fund" is between 42% and 67% of ICC revenue located on its territory, with various intermediate permutations. The second highest tax is property tax (*impôt foncier*) levied on lands and buildings (5% of local tax revenue). Other minor taxes include a gambling tax, dog tax, a surtax over the real estate transfer tax, etc.

GRANTS AND SUBSIDIES. The main framework for intergovernmental transfers is the Communal Fund for Financial Grants (*Fonds Communal de Dotation Financière*, FCDF). Established in 1987, it regroups around 70% of all grant funding from the central government to municipalities. Transfers are not earmarked and represent around 40% of local revenue. Annual funding for the FCDF is made up of 18% of PIT receipts, 10% of VAT receipts, 20% of the vehicle tax, as well as an additional lump sum set annually by legislation. A fixed sum is allocated to each municipality, as well as a variable grant based on criteria such as population, amount of green land and population density. Other current and investments grants are all earmarked. Capital grants represent around 15% of total grants.

OTHER REVENUES. The share of other municipal revenues is high, in particular that of fees and user charges for public services such as fees for water distribution, disposal of household waste (18%). They also include property revenue (interests, dividend, assets sales, etc.).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	3.0%	10.1%

Municipal budgets and borrowing are under the supervision of the Ministry of Interior. While municipalities are not prohibited from running an operating deficit, according to the Municipal law, borrowing is only allowed if there is no other financing option, and if regular reimbursement of annual accruals is guaranteed. Loans are only permitted to fund capital expenditure (golden rule). Any loans in excess of EUR 50 000 must be approved by the Ministry of the Interior. Issuing bonds is allowed but never used. The local debt-to-GDP ratio is five times lower than the average of OECD unitary countries. The share in total public debt is slightly lower (OECD unitary country average: 12%). The outstanding debt is made up of loans (73%) and other accounts payable.

A joint- study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Council of Europe (2015) Local democracy in Luxembourg, CPL/2015(29)5FINAL • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism" • Banque centrale du Luxembourg (2013) Bulletin BCL 2013 • Banque Centrale du Luxembourg et Gouvernement du Luxembourg (2012) Radiographie des finances communales.