

INSTITUT FÜR DEMOSKOPIE ALLENSBACH

Luxembourg Business Compass

15th Survey Wave

June 2016

TABLE OF CONTENTS

	Page
INTRODUCTION	1
 FINDINGS	
Optimism about the economic outlook continues to grow among Luxembourg business leaders	3
Business leaders have renewed confidence in Luxembourg's competitiveness, while the lack of qualified staff continues to be problematic	5
The lack of qualified staff is an important barrier to growth, whereas legislative and regulatory pressures have declined	13
Luxembourg companies expect a strong increase in investments and the number of employees, yet are more cautious when it comes to turnover and profitability	16
A majority of companies are planning to expand their budgets for information technology, introducing new products and services, and recruiting new staff	19
The impact of the upcoming corporate tax reform is viewed skeptically by many Luxembourg entrepreneurs	23
More flexible working hours are important—but the planned reform of the PAN law is viewed critically	31

APPENDIX

Survey data

INTRODUCTION

In April 2009, top decision-makers at the largest companies in Luxembourg, as defined by the number of employees, were interviewed for the first time within the framework of the *Luxembourg Business Compass*. Using this instrument, the aim was to establish an economic indicator—for the first time ever—that could be employed to ascertain Luxembourg business leaders' expectations regarding the future economic trend in Luxembourg at regular intervals. The survey focuses particularly on how business leaders expect the Luxembourg economy will develop in the next 12 months, along with their expectations and plans for their own companies' future development. These core questions are supplemented by varying questions pertaining to business or politics.

In June 2016, the survey for the *Luxembourg Business Compass* was conducted for the fifteenth time. As with the prior survey waves, the INSTITUT FÜR DEMOSKOPIE ALLENSBACH was commissioned by KPMG S.A.R.L. to design the survey methodologically, develop the questionnaire in cooperation with the client, confidentially process the anonymous data collected and compile a report on the findings. After being notified about the survey in writing or by telephone, a total of 61 top decision-makers were interviewed using an online questionnaire in English in the time from May 26 – June 10, 2016. As in all of the previous survey waves, it was also possible to draw a top-notch sample for the present survey: in 16 percent of the cases, the interview was completed by the company owner him- or herself, while about three quarters of the respondents either belong to the executive board or top management of their companies (74 percent), and the remaining 8 percent hold other executive positions.*

The companies were selected based on the STATEC directory, "Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2, Situation au 1er janvier 2015 (édition juin 2015)."

* Two percent of respondents did not indicate their position at their companies.

In drawing the sample, companies were selected from the different business sectors in line with these sectors' share of the gross domestic product in Luxembourg. Within the different economic sectors, the largest companies—as determined by the number of employees—were included in the investigation.

The present report summarizes the most important findings of the study and presents them in graphic form. The report is supplemented by a basic volume of tables showing the responses to all questions in tabular form.

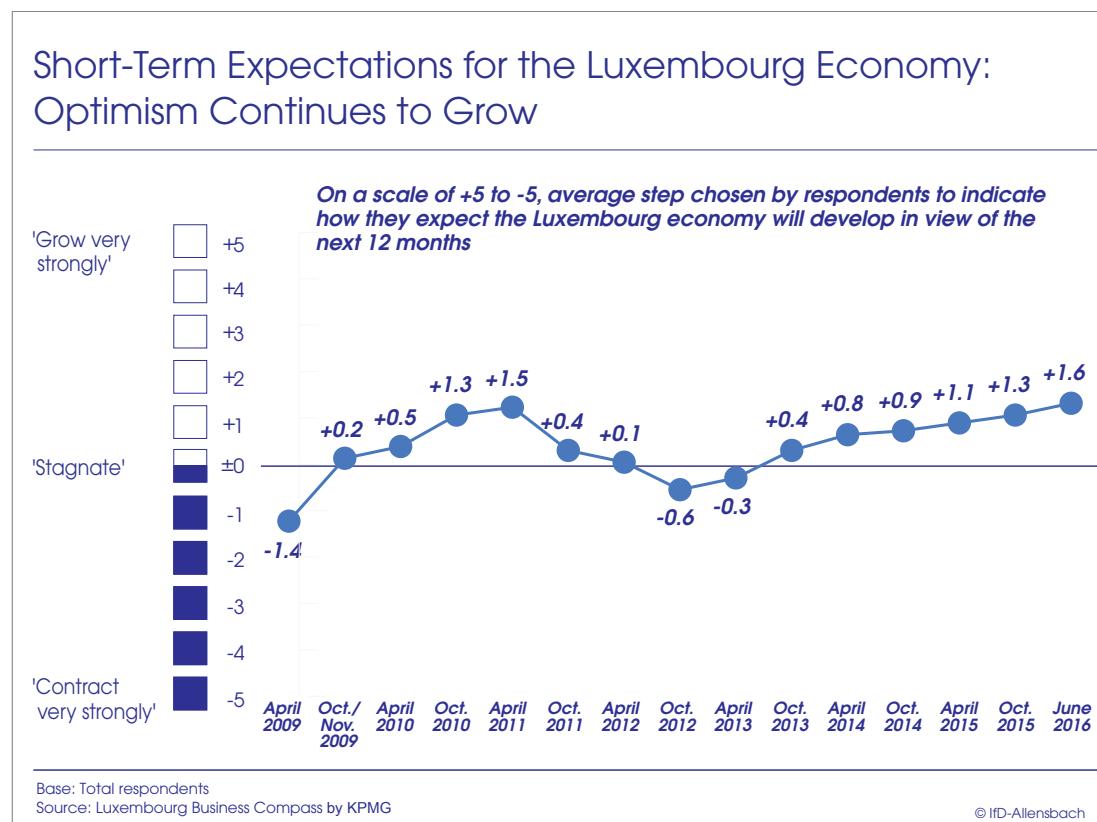
Allensbach on Lake Constance, INSTITUT FÜR DEMOSKOPIE ALLENSBACH
June 24, 2016

FINDINGS

Optimism about the economic outlook continues to grow among Luxembourg business leaders

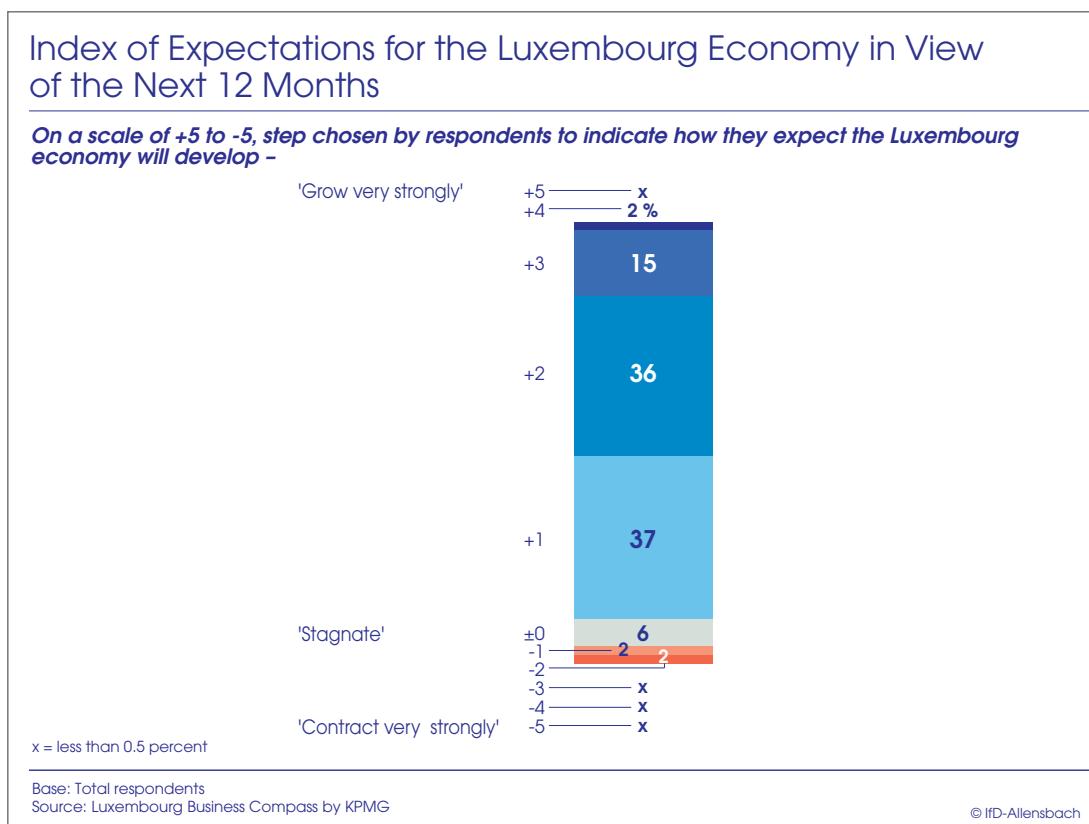
In the view of Luxembourg business leaders, the Luxembourg economy is continuing on its upward path, as evidenced by their expectations for the economic development over the next 12 months, which are again clearly positive. On an 11-step scale ranging from '-5' ("economy will contract very strongly") to '+5' ("economy will grow very strongly"), respondents currently choose an average value of +1.6, indicating that they anticipate perceptible economic growth over the course of the year. Their expectations have thus improved for the seventh time in a row (Figure 1).

Figure 1



Business leaders' expectations for the next 12 months are very homogeneous, with almost three quarters choosing steps +1 or +2 on the scale (73 percent), along with 17 percent who expect even stronger economic growth. In contrast, only 6 percent anticipate economic stagnation, while a mere 4 percent expect the economy will contract slightly (Figure 2).

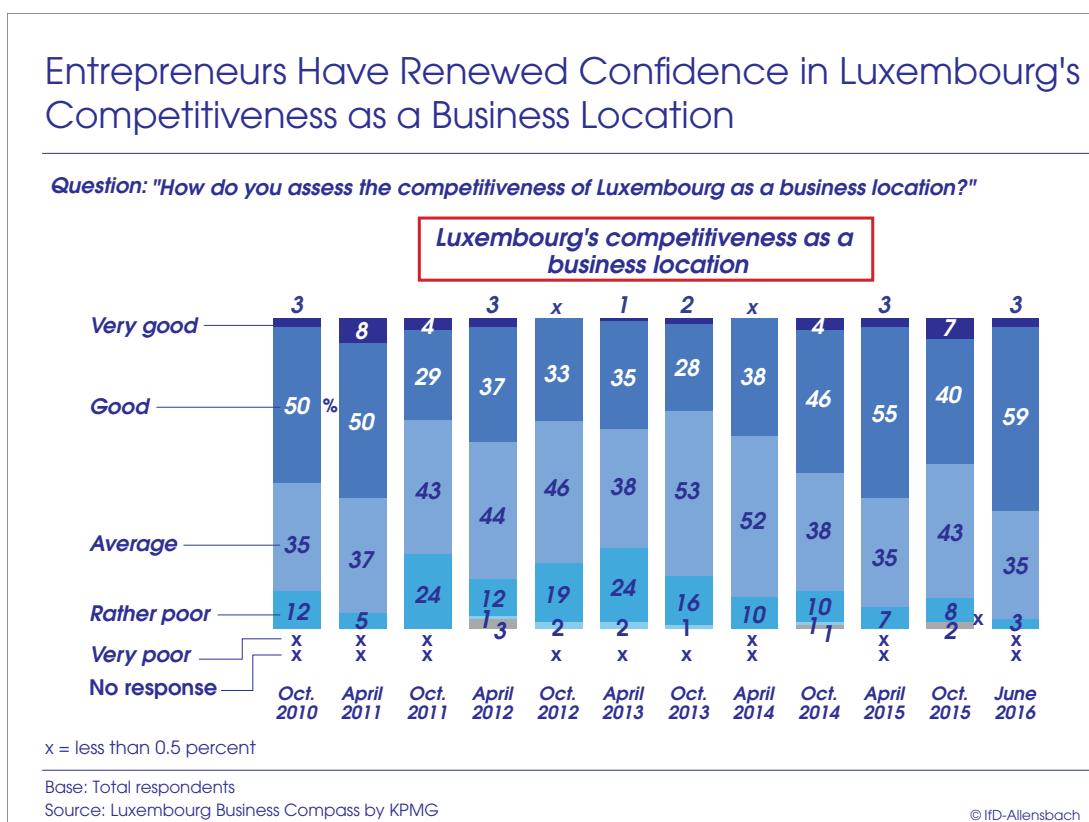
Figure 2



Business leaders have renewed confidence in Luxembourg's competitiveness, while the lack of qualified staff continues to be problematic

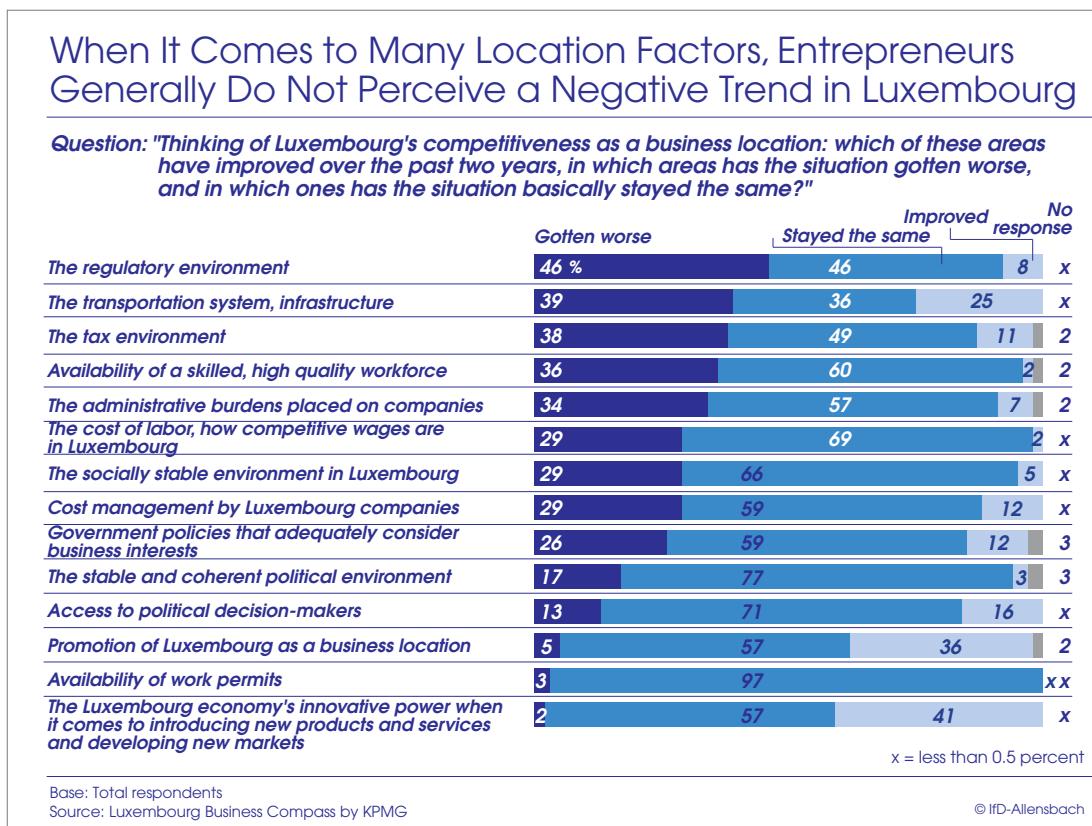
When it comes to Luxembourg's competitiveness as a business location, Luxembourg business leaders give clearly more positive assessments than they did in the fall of last year. Almost two thirds of top decision-makers now assess the country's competitiveness as good (59 percent) or very good (3 percent). Combined, that is the highest share ever measured for this question within the framework of the *Luxembourg Business Compass* (Figure 3).

Figure 3



When it comes to a number of individual factors that contribute to Luxembourg's competitiveness as a business location, the share of business leaders who perceive negative trends continues to outweigh those who perceive a positive development. Nevertheless, none of the 14 location factors included in the survey are perceived as having developed negatively by a majority of respondents. Luxembourg decision-makers are most critical with respect to the development of the regulatory environment: here, 46 percent of the business leaders interviewed say that the situation has gotten worse over the past two years. A positive trend is perceived on balance in connection with the innovative power of the Luxembourg economy, promotion of Luxembourg as a business location and access to political decision-makers (Figure 4)

Figure 4



Moreover, the development of a number of location factors is now assessed less negatively than in prior survey waves. This is especially true with respect to the development of the regulatory environment, the tax environment, the administrative burdens placed on companies, along with labor costs (Figures 5 to 8).

Figure 5

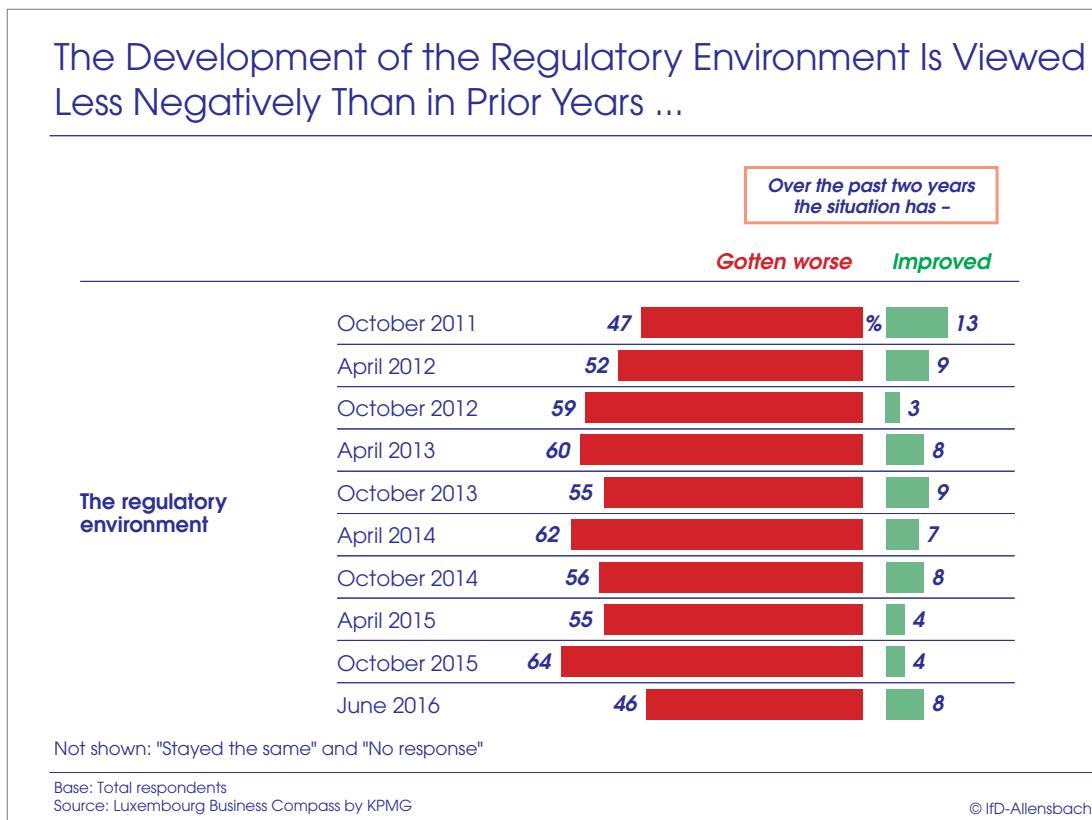


Figure 6

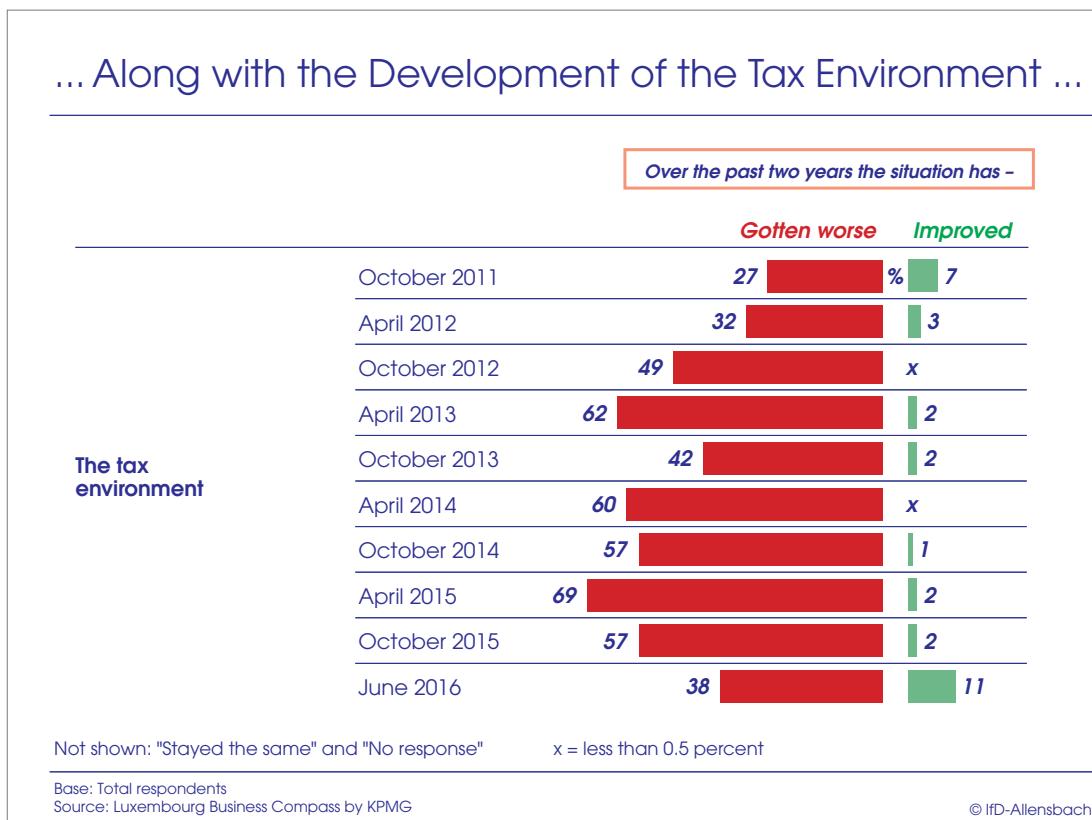


Figure 7

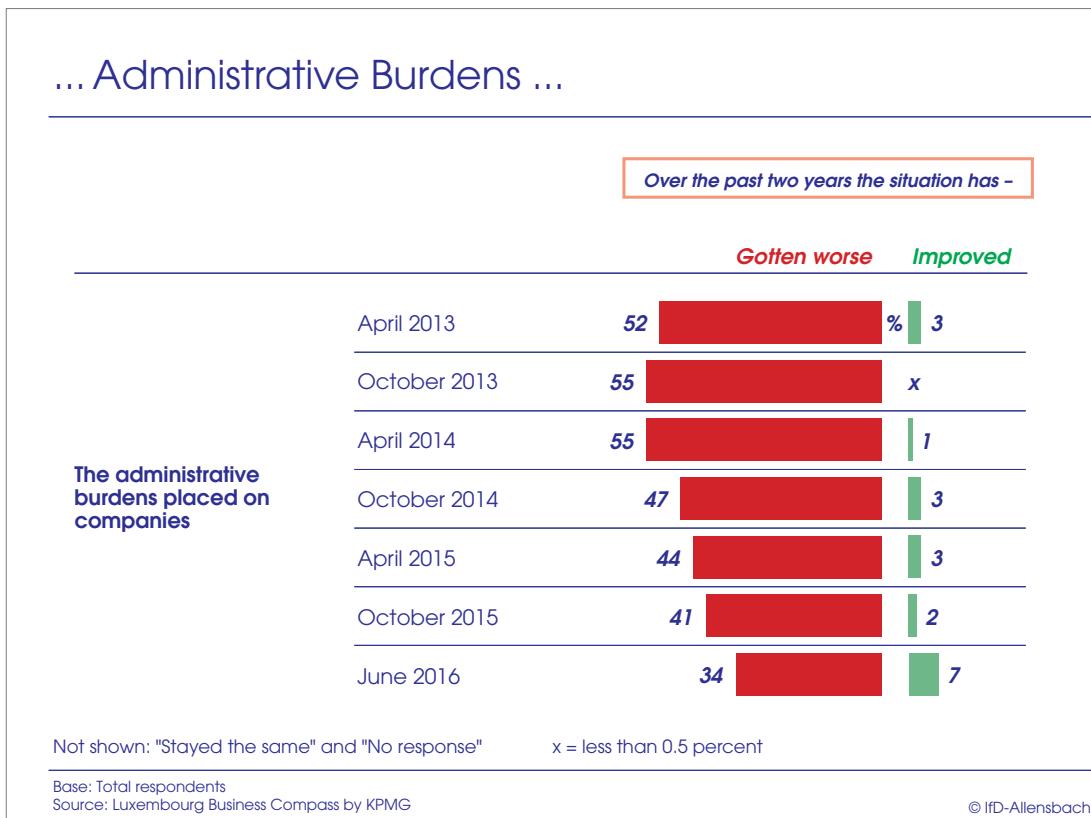
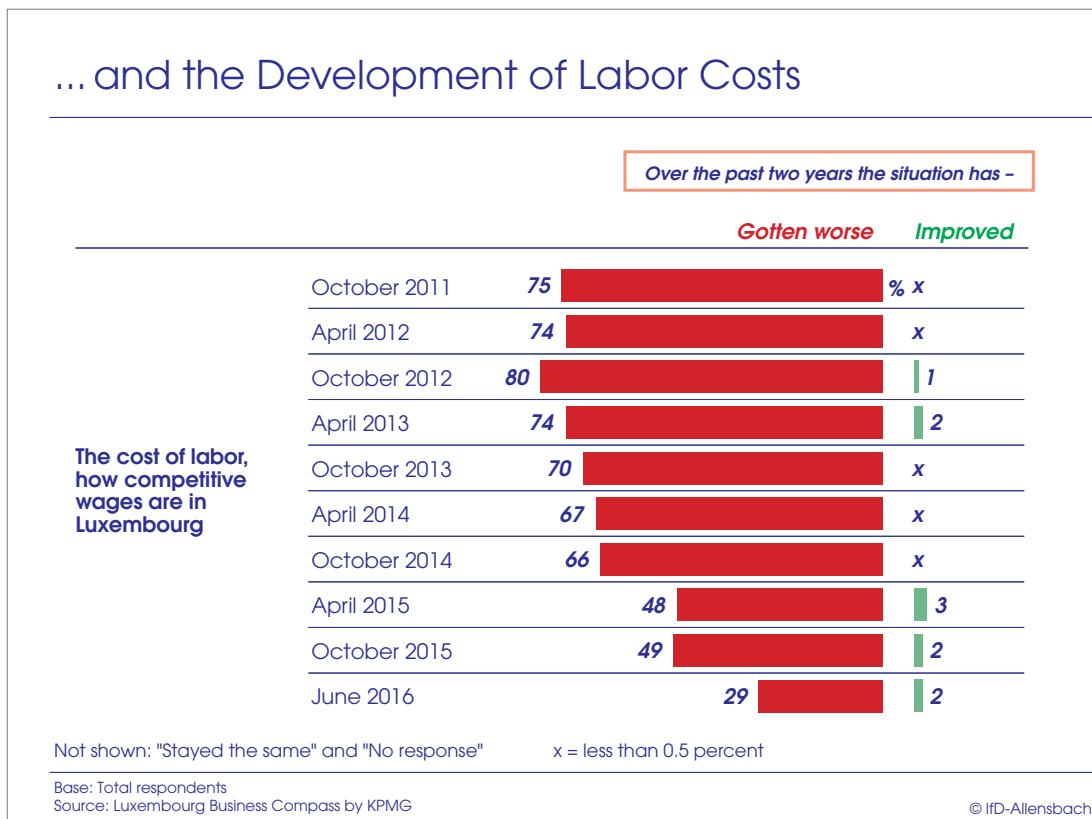
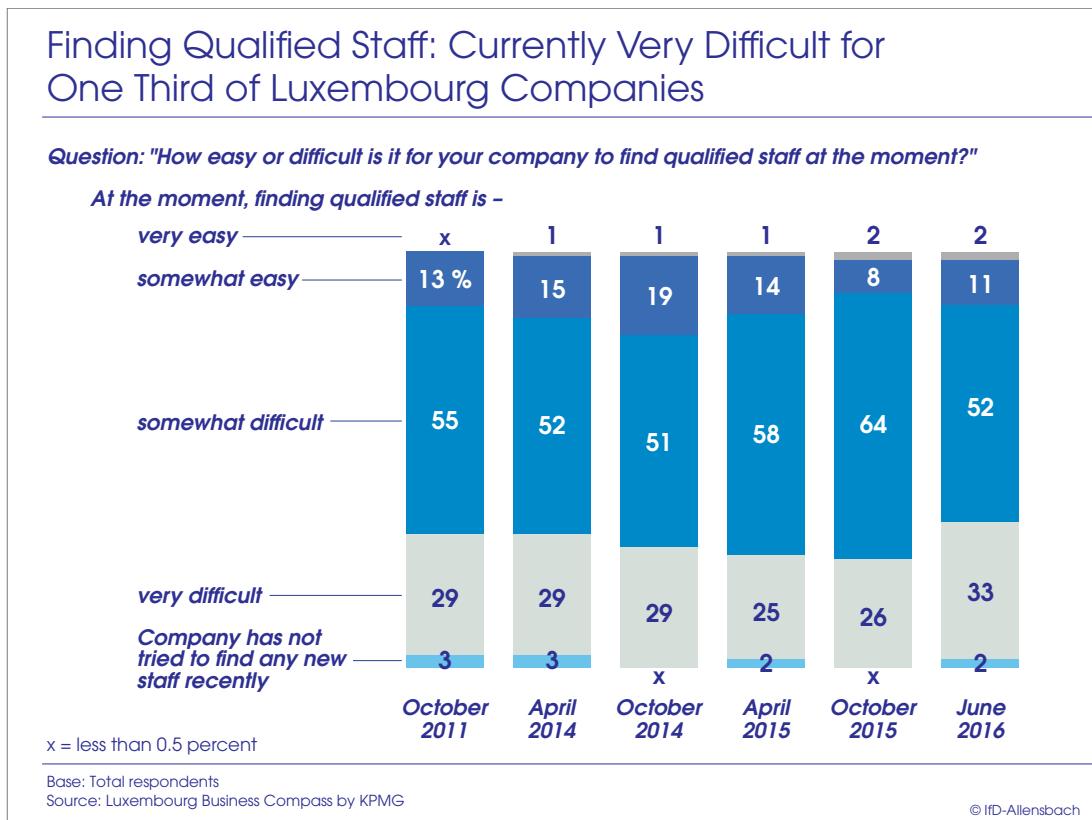


Figure 8



More than a third of Luxembourg business leaders rate the availability of a skilled, high quality work force as worse than it was two years ago.¹ This is reflected in the widespread difficulties Luxembourg companies have in finding qualified staff: only 13 percent of the business leaders interviewed report that finding qualified staff is currently easy or even very easy. In contrast, about half say that finding qualified staff is "somewhat difficult," while a third even say it is "very difficult" (Figure 9).

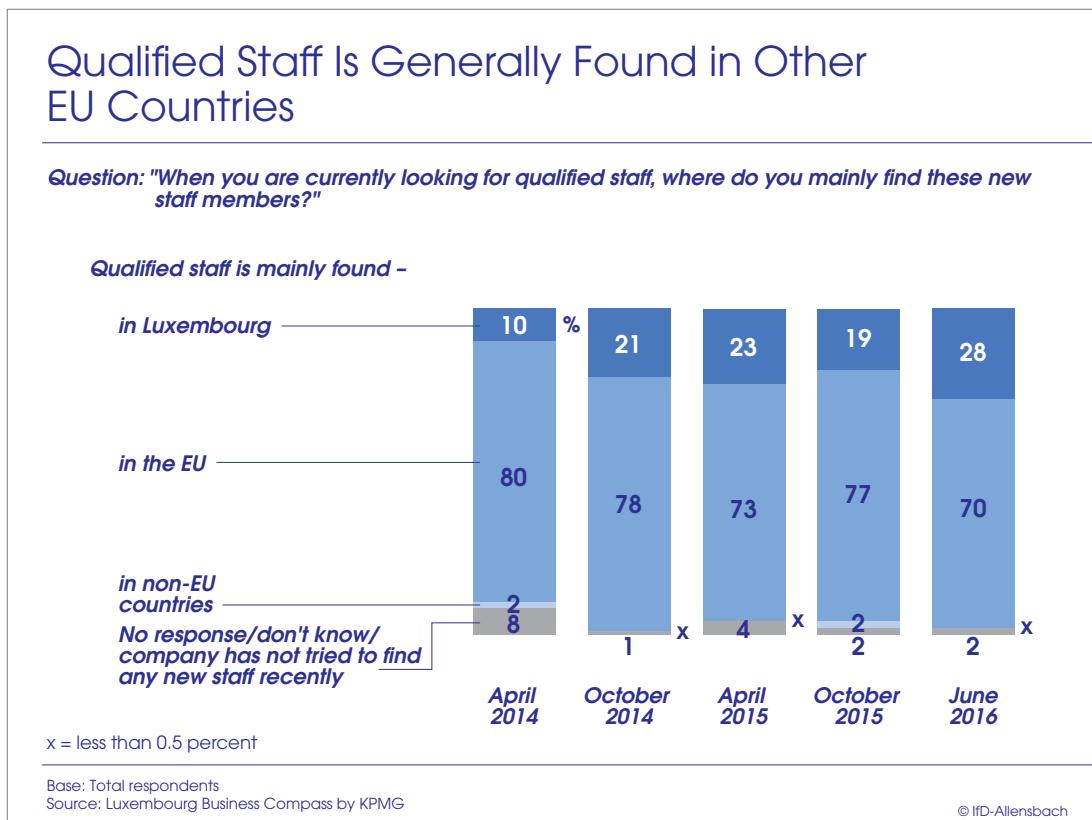
Figure 9



¹ Cf. Figure 4

About two thirds of major Luxembourg companies primarily find qualified staff in other EU countries. The share of companies that mainly find qualified staff in Luxembourg is currently 28 percent, which is a clear increase in comparison with the shares obtained in previous years (Figure 10).

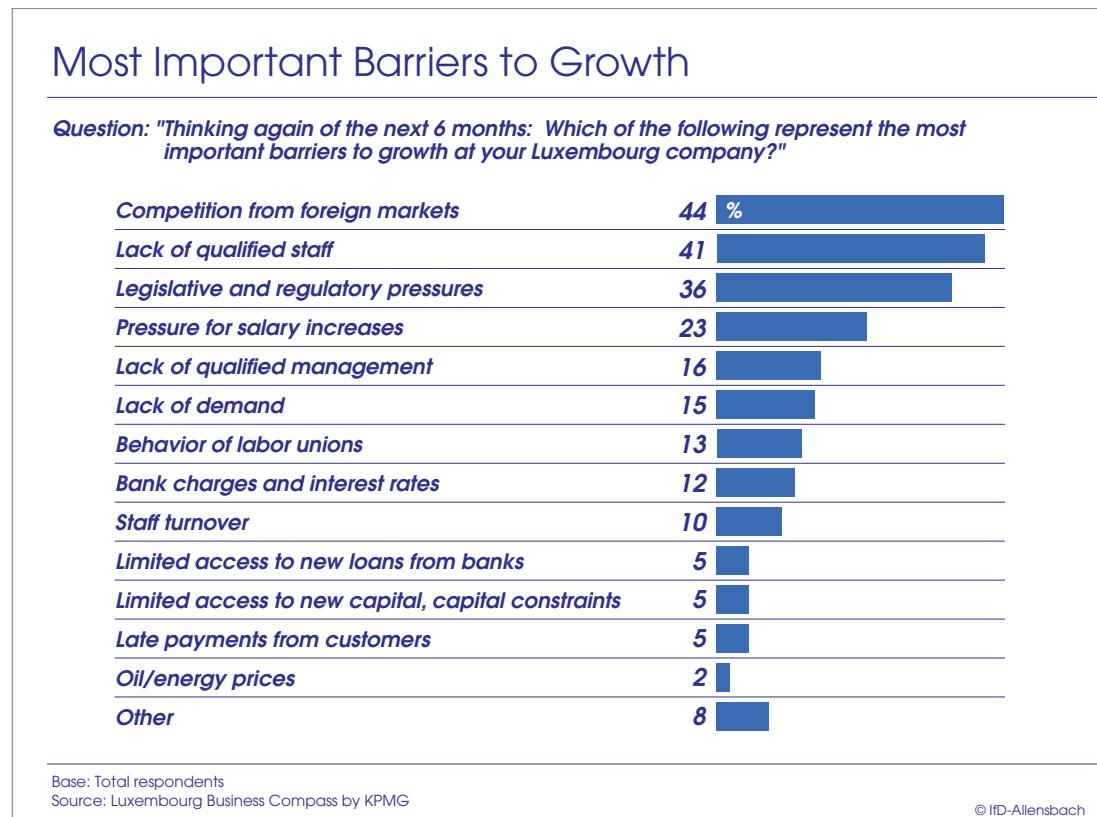
Figure 10



The lack of qualified staff is an important barrier to growth, whereas legislative and regulatory pressures have declined

In the view of Luxembourg business leaders, the lack of qualified staff is currently one of the most important barriers to growth at their companies. The only factor that is cited more frequently is competition from foreign markets (Figure 11). The importance of the lack of qualified staff as a barrier to growth thus remains at the high level that was already ascertained in the prior survey wave conducted in October 2015.

Figure 11



Similarly, the lack of qualified management is viewed as problematic by a growing share of Luxembourg companies. In April 2009, only 7 percent of business leaders cited this factor as a barrier to growth at their companies, a share which has in the meantime grown to 16 percent (Figure 12).

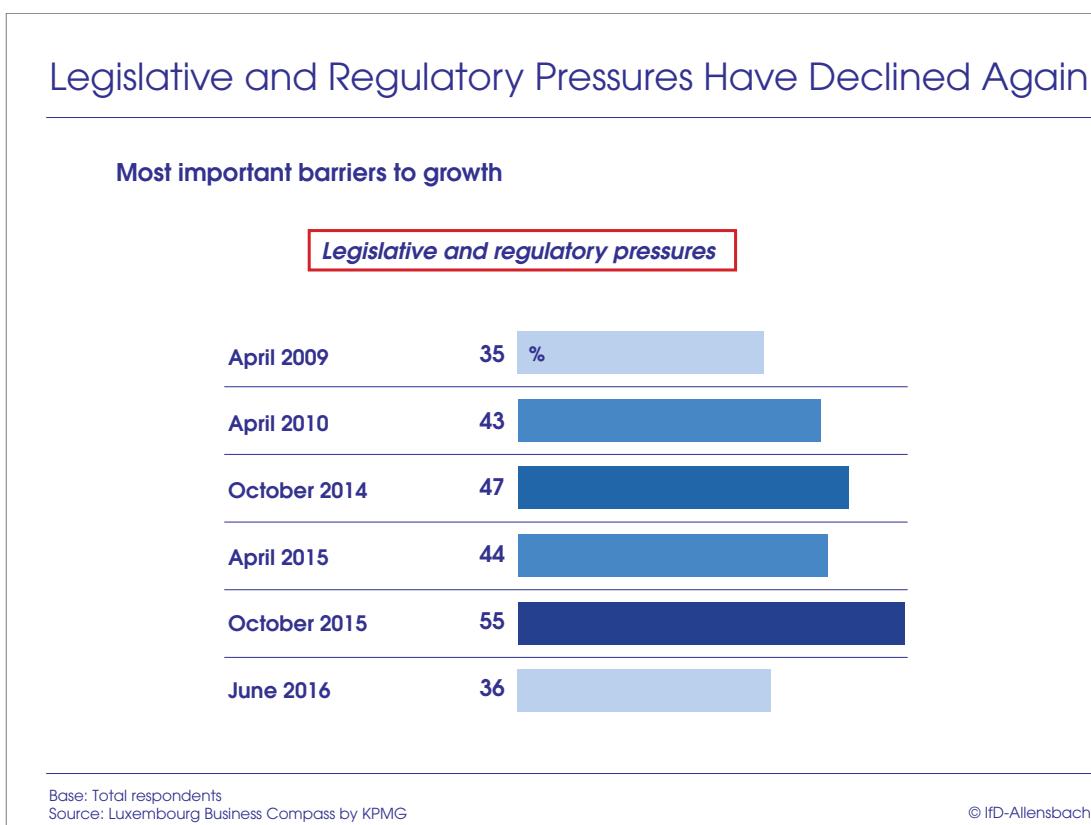
Figure 12



In contrast, the legislative and regulatory pressures imposed by the state appear to be less problematic for companies now than was the case in prior years (Figure 13). The development of the regulatory environment as a location factor is also currently assessed less negatively than it was in the past.²

The share of companies that view bank charges and interest rates as an important barrier to growth is currently 12 percent, which is higher than the shares ascertained in previous years (October 2015: 4 percent). This point is cited almost exclusively by companies in the financial industry.

Figure 13

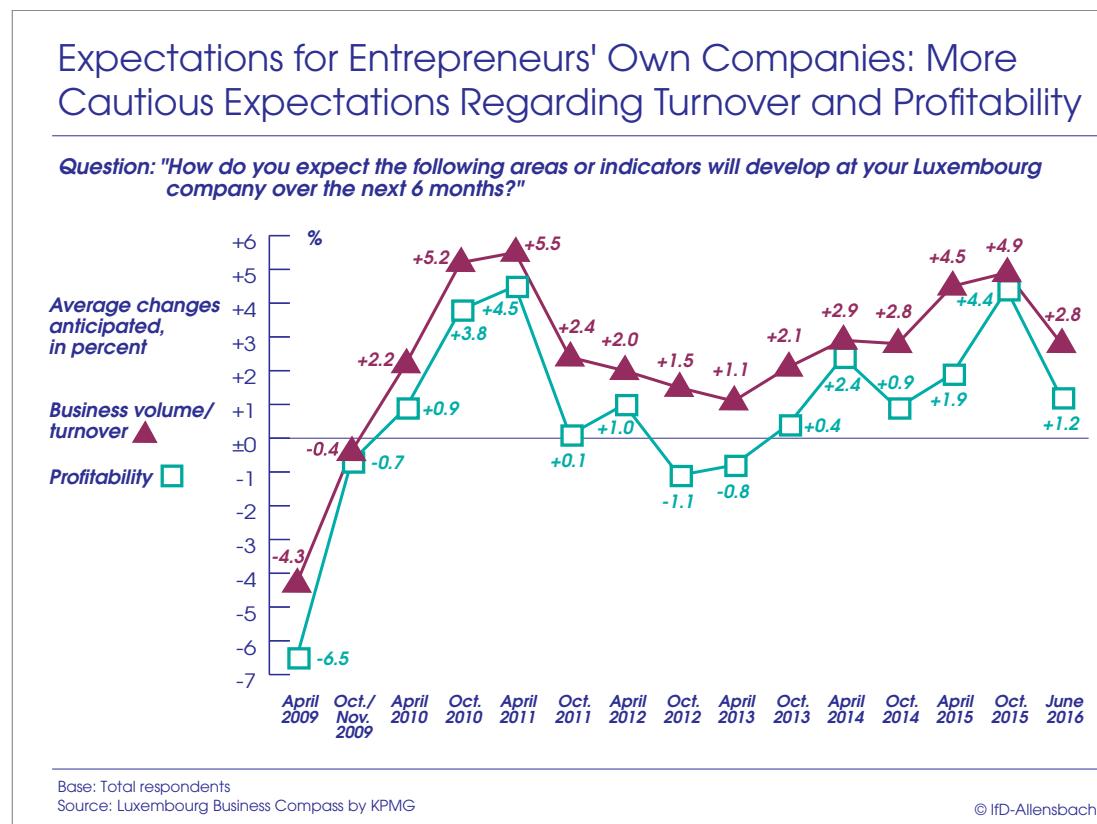


² Cf. Figure 5

Luxembourg companies expect a strong increase in investments and the number of employees, yet are more cautious when it comes to turnover and profitability

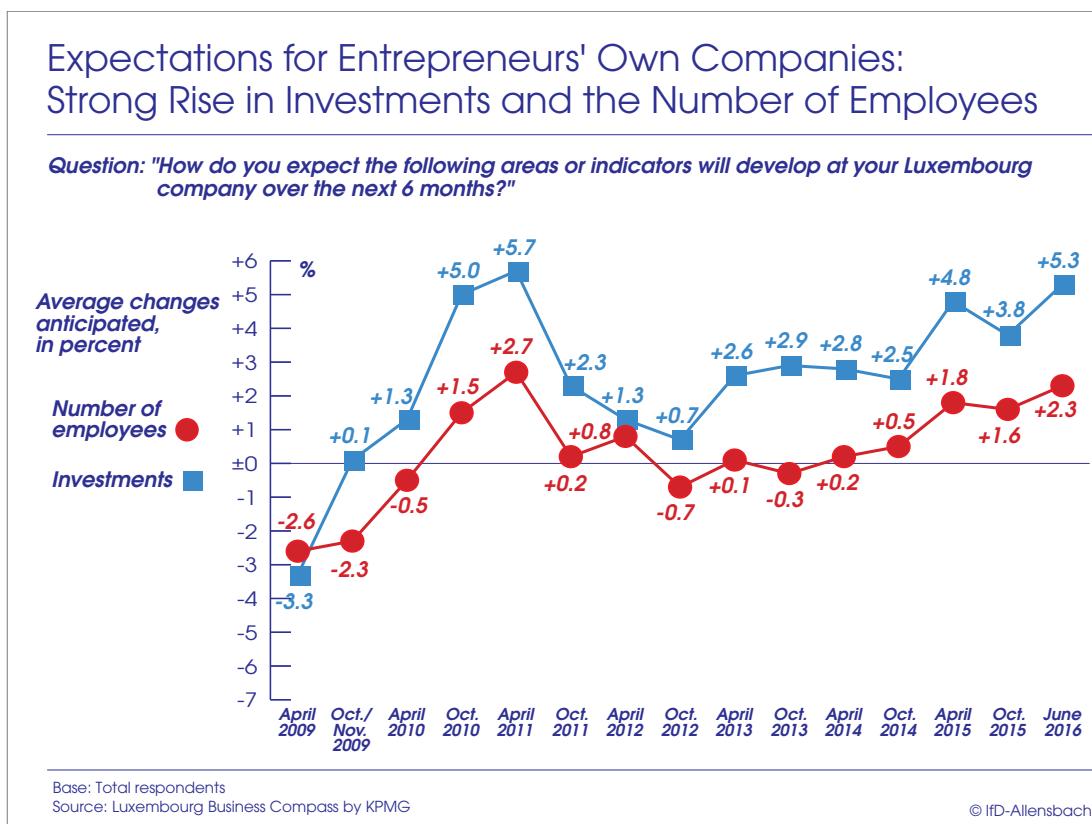
Despite their increasingly optimistic outlook regarding the general economic trend, Luxembourg decision-makers are clearly more cautious than they were last year when it comes to the development of turnover and profitability at their own companies. Nevertheless, business leaders continue to expect a positive development in these areas on average. Over the next 6 months, turnover is expected to grow by an average of 2.8 percent, while profitability is expected to increase by 1.2 percent. Compared to the expectations ascertained in Fall 2015, this is a decline of about 2 or, respectively, 3 percentage points (Figure 14).

Figure 14



In contrast to the somewhat more cautious expectations in the areas of turnover and profitability, both investments and the number of employees are expected to show the strongest growth since April 2011: over the next 6 months, Luxembourg decision-makers are planning to increase their investment volume by an average of 5.3 percent, while the number of employees is expected to grow 2.3 percent on average (Figure 15). The magnitude of the planned increase in the number of employees is likely to further exacerbate the widely reported lack of qualified staff.

Figure 15



A more differentiated analysis shows that roughly one out of four major companies anticipate a decrease in profitability over the next 6 months, while a decline in turnover is expected by about one out of five major companies. In contrast, hardly any major Luxembourg companies are planning to reduce their investment volume (Figure 16).

Figure 16

Some Luxembourg Entrepreneurs Expect Decreases in Turnover and Profitability				
<i>Question: "How do you expect the following areas or indicators will develop at your Luxembourg company over the next 6 months?"</i>				
	Profitability %	Business volume/ turnover %	Investments %	Number of employees %
Increase:	52	65	67	59
+20% or more	2	3	7	x
+10% to less than +20%	8	5	11	7
+5% to less than +10%	16	23	24	11
less than +5%	26	34	25	41
No change	21	15	26	28
Decrease:	27	20	5	13
less than -5%	10	13	2	10
-5% to less than -10%	7	3	3	2
-10% to less than -20%	8	2	x	1
-20% or more	2	2	x	x
No response	x	x	2	x
	100	100	100	100
On average	+1.2	+2.8	+5.3	+2.3

x = less than 0.5 percent

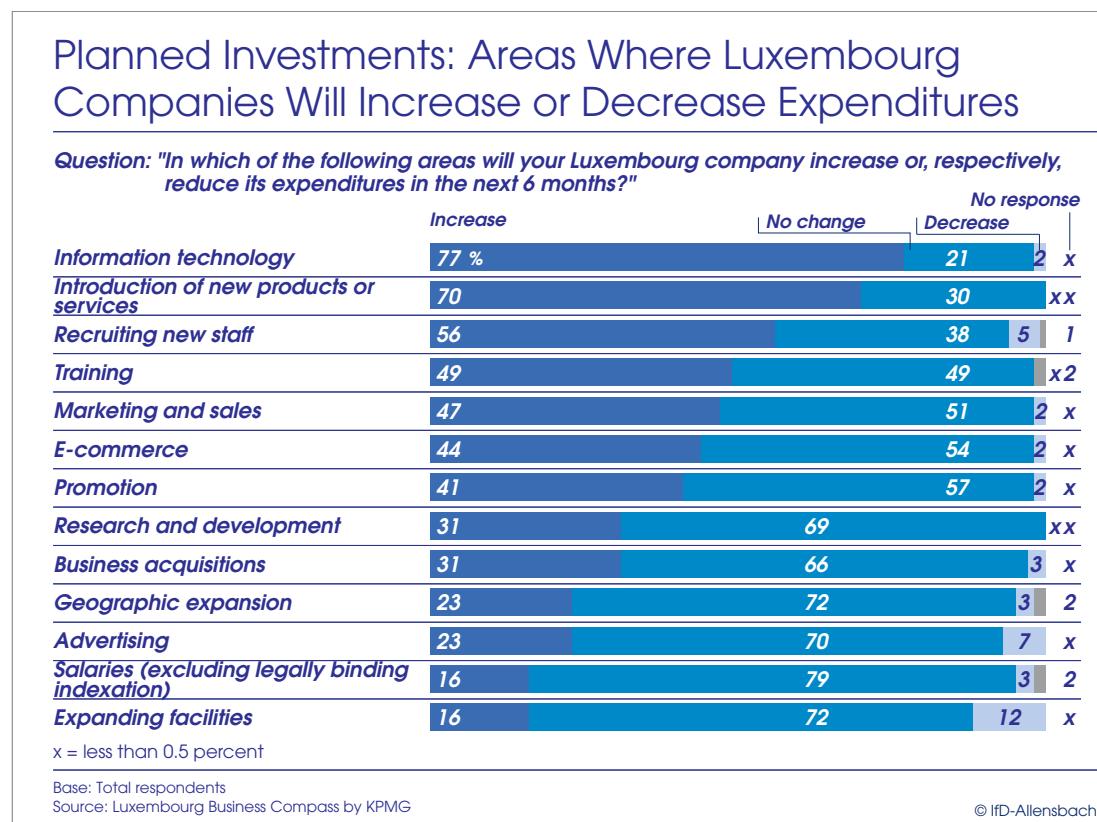
Base: Total respondents
Source: Luxembourg Business Compass by KPMG

© IfD-Allensbach

A majority of companies are planning to expand their budgets for information technology, introducing new products and services, and recruiting new staff

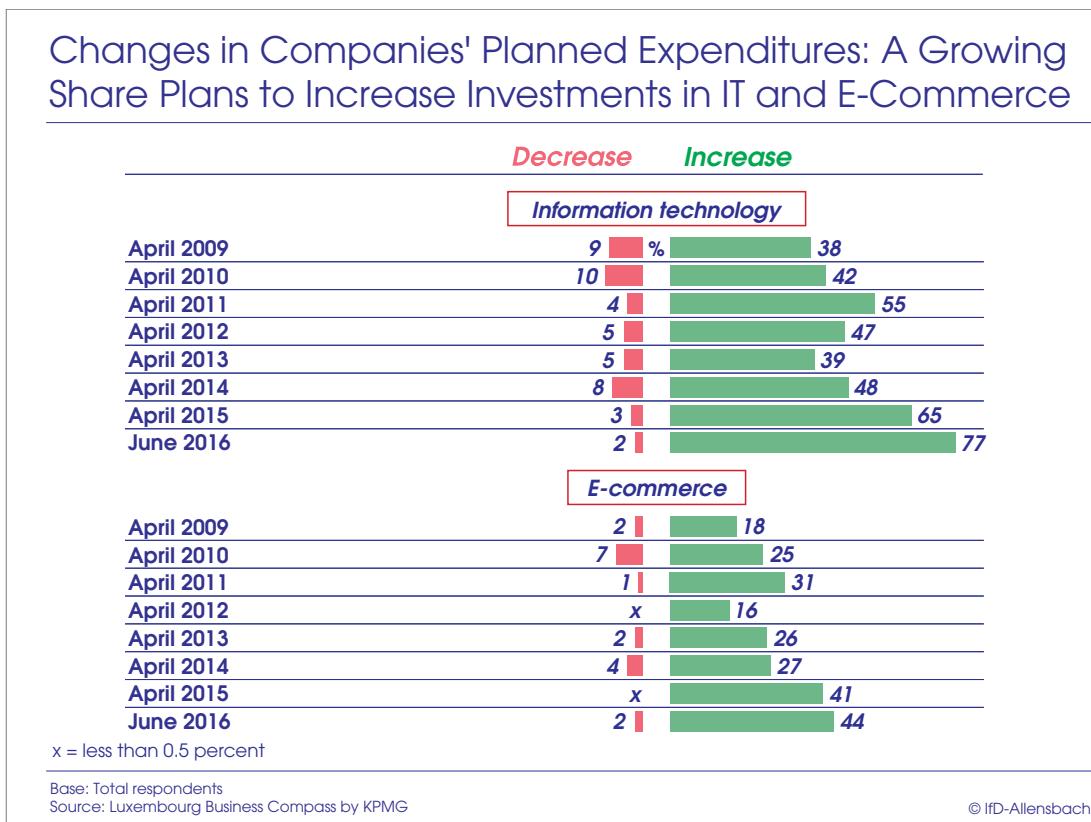
The largest Luxembourg companies are generally planning to increase rather than reduce their budgets for all areas of operations over the next six months. A particularly large share of companies anticipate increases in connection with information technology (77 percent), as well as for introducing new products or services (70 percent) and recruiting new staff (56 percent). In contrast, the most moderate budgetary increases are expected in connection with expanding facilities and—remarkably—salaries and wages (Figure 17).

Figure 17



In comparison with the planned increases measured last year, the share of companies that now intend to increase their IT budgets is also remarkably high—higher than in all previous survey waves. Moreover, entrepreneurs also intend to invest more strongly in e-commerce than in prior years (Figure 18). The substantial increase in investments expected by Luxembourg companies over the next six months³ will probably be concentrated especially in these areas—and perhaps also for introducing new products or services.

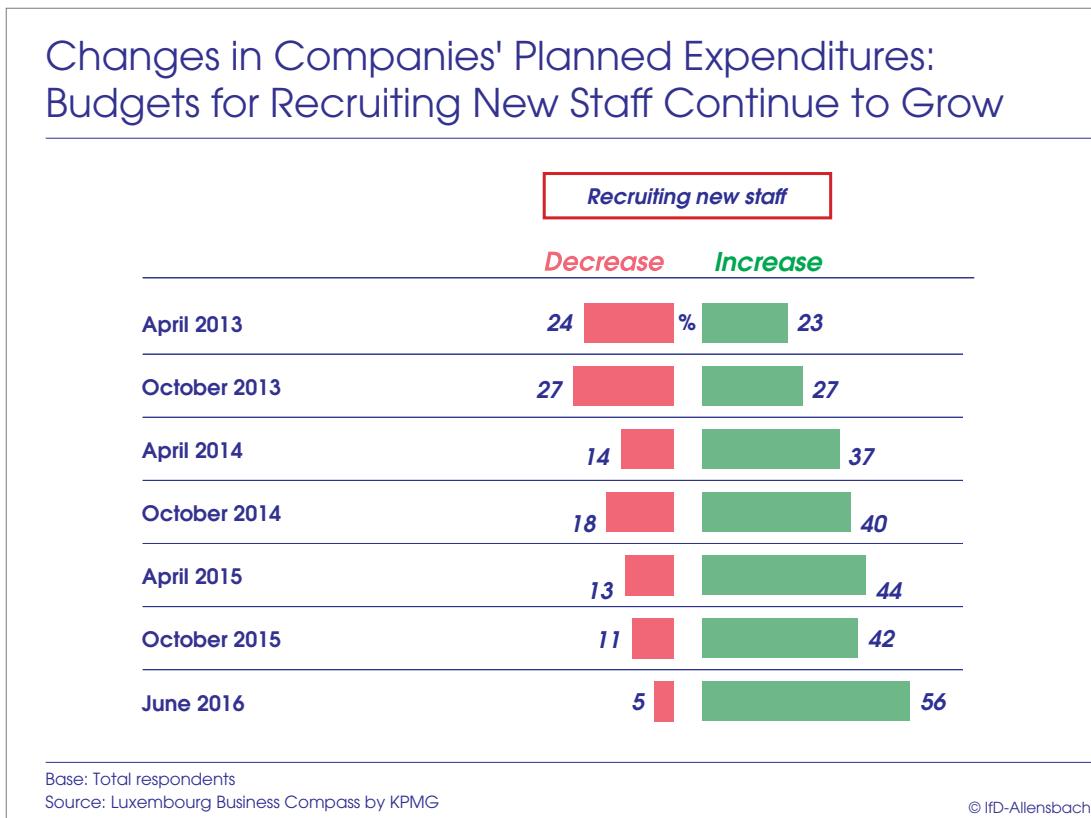
Figure 18



³ Cf. Figure 15

Likewise, the share of companies that are planning to increase their budgets for recruiting new staff continues to grow substantially (Figure 19). In view of the widely reported lack of qualified staff, this is hardly surprising.⁴

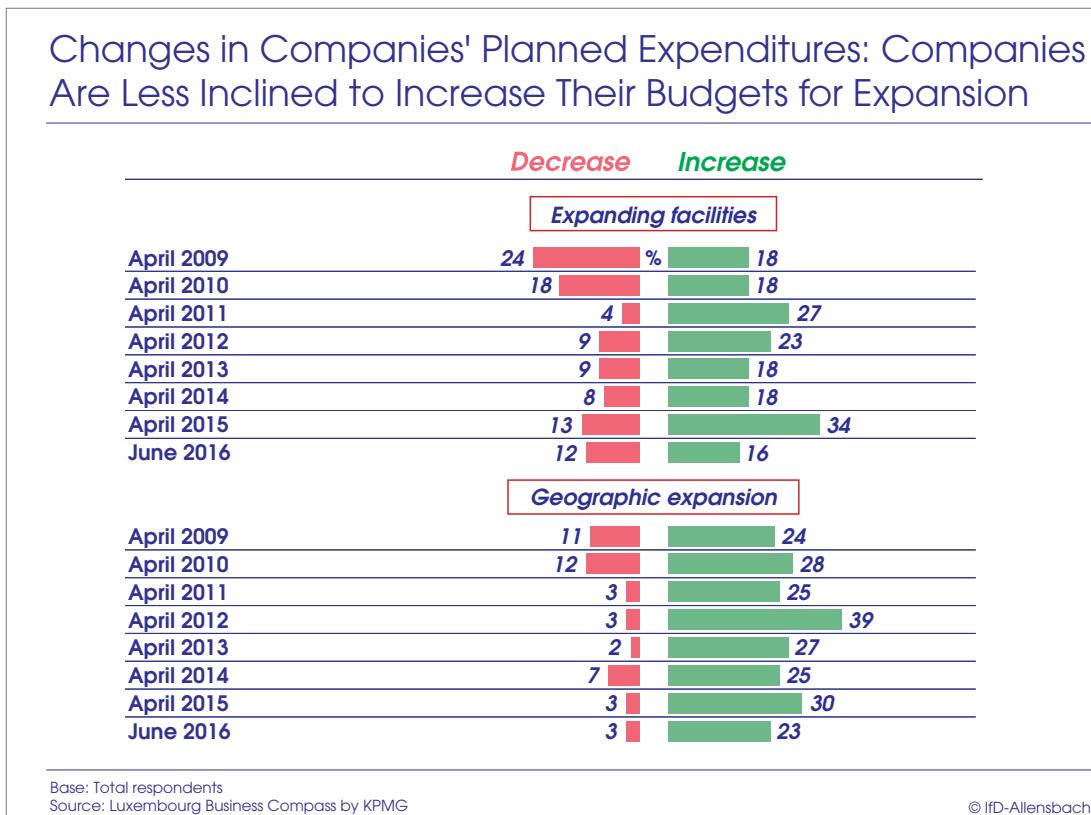
Figure 19



⁴ Cf. Figures 9, 11 and 12

In contrast, the share of companies that are planning to increase their budgets for expanding facilities and geographic expansion has dropped in comparison with prior years (Figure 20).

Figure 20

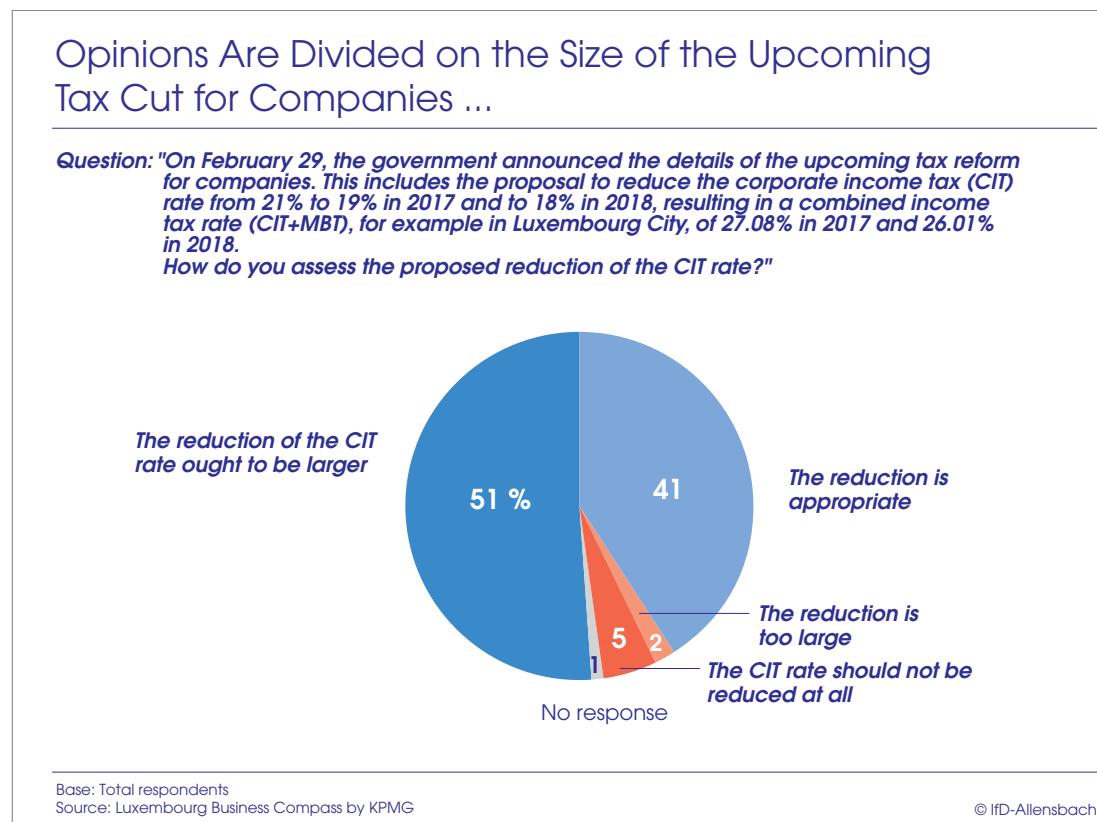


The impact of the upcoming corporate tax reform is viewed skeptically by many Luxembourg entrepreneurs

Reforming the corporate tax laws is one of the Luxembourg government's major economic projects. Details of the planned reform were announced in late February of this year. The tax reform comprises a number of different measures, including cutting the corporate income tax (CIT) rate, increasing the minimum net wealth tax for holding and finance companies, along with limiting the use of loss carryforwards.

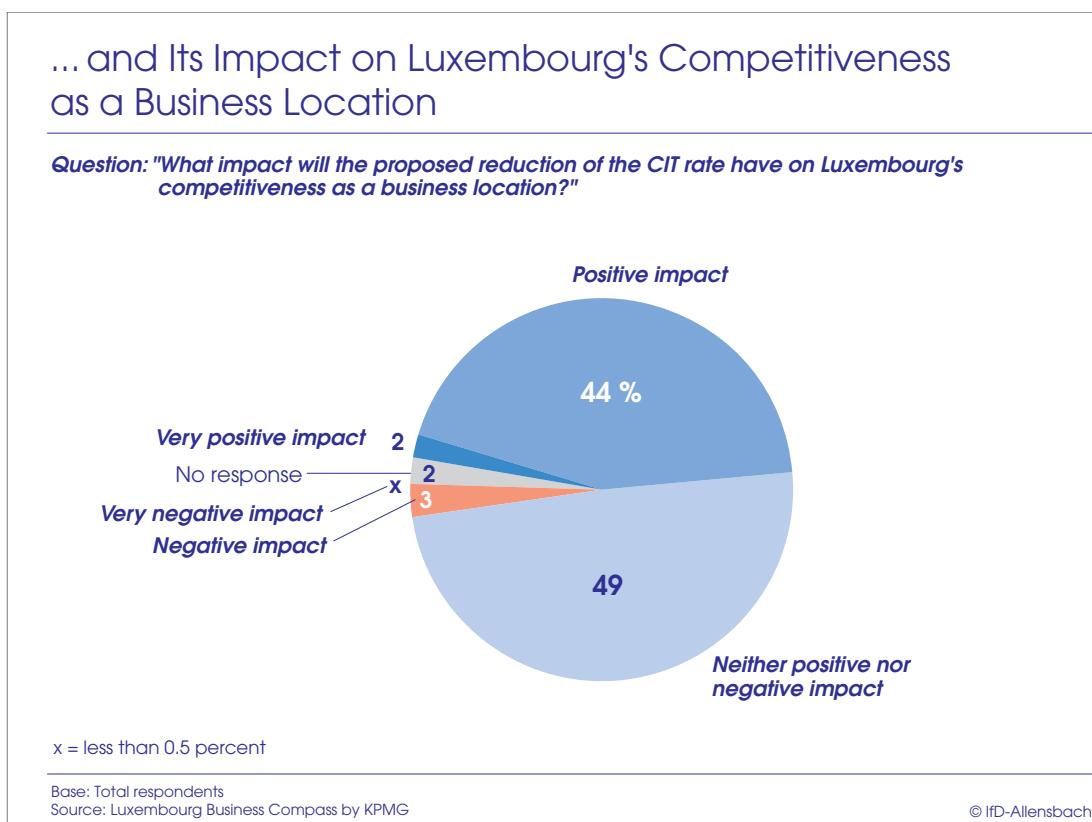
The announced reduction of the CIT rate from 21 percent to 19 percent next year, and then to 18 percent in 2018, is criticized by about half of the entrepreneurs interviewed as being too small. In comparison, 41 percent say that the reduction is appropriate, while 7 percent even feel that the reduction is too large or, respectively, that the CIT rate should not be reduced at all (Figure 21).

Figure 21



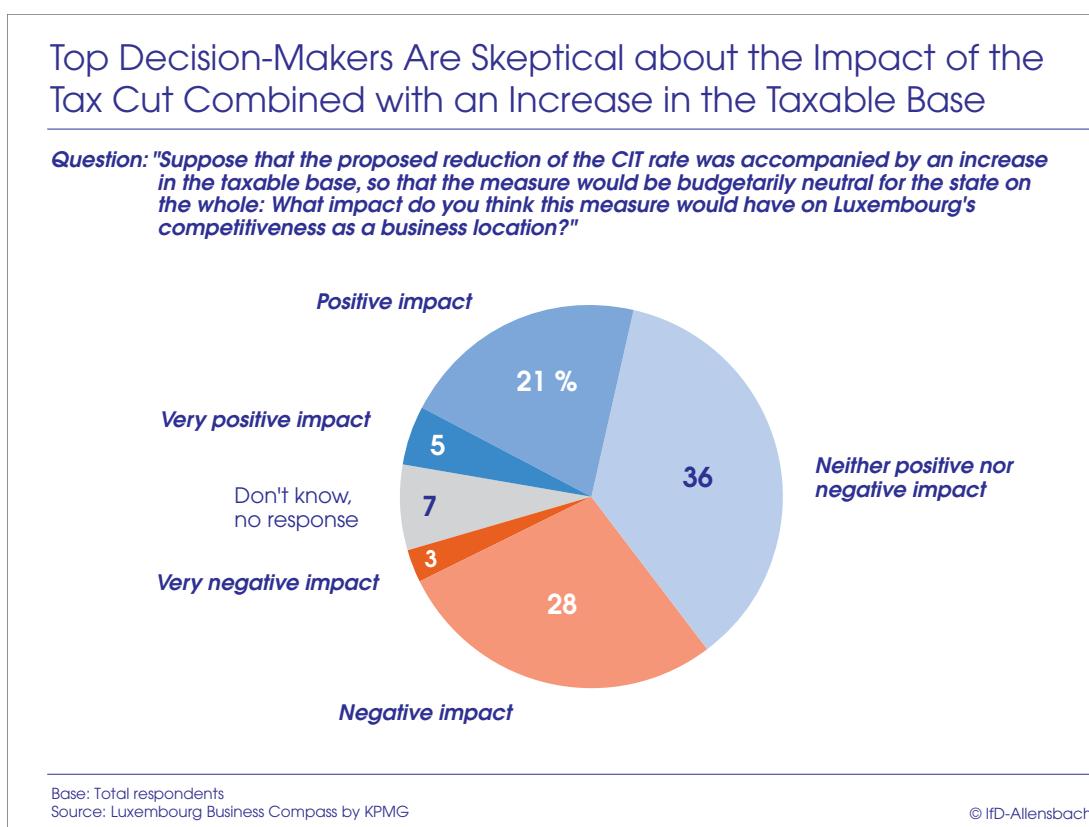
Just under half of top decision-makers expect that reducing the corporate tax rate will have a positive or even very positive impact on Luxembourg's competitiveness as a business location. Only a small minority anticipates a negative impact. About half of Luxembourg business leaders believe that this measure will have neither a positive nor negative impact on the country's competitiveness (Figure 22).

Figure 22



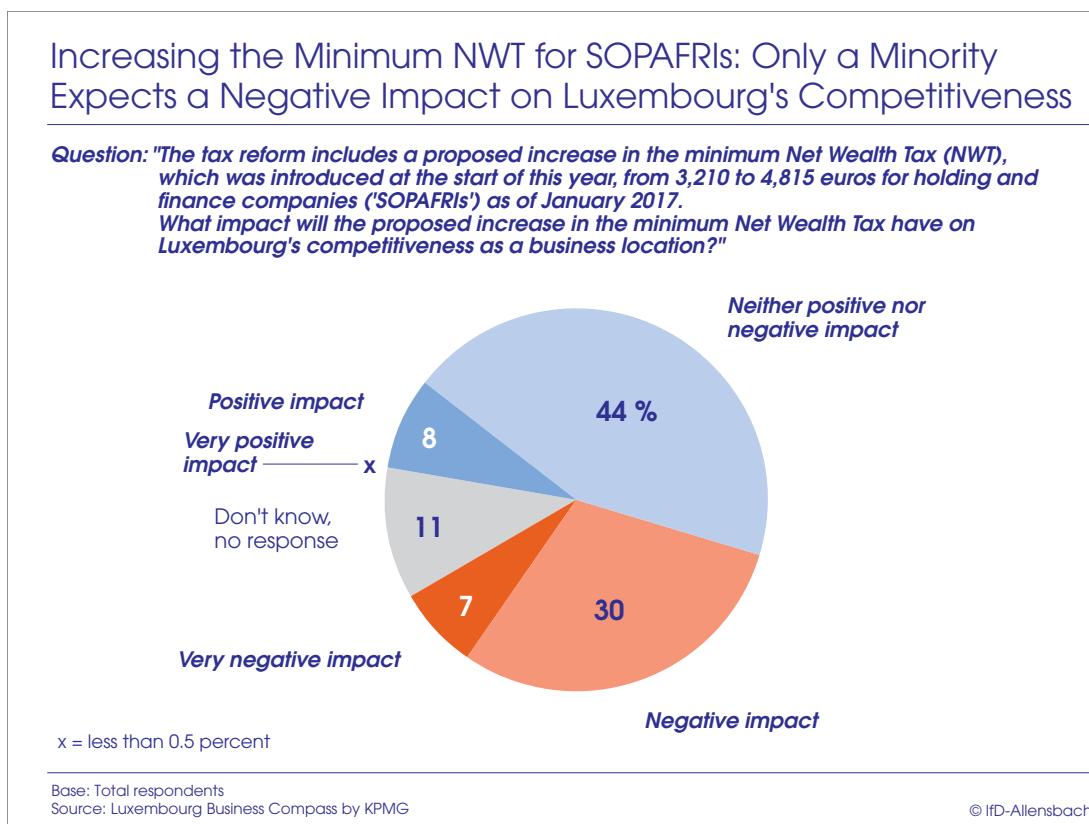
Opinions are even more divided when business leaders are asked how they expect the country's competitiveness would be affected if the reduction of the CIT rate was accompanied by an increase in the taxable base, so that the measure would be budgetarily neutral for the state. A relative majority of 36 percent says this would have neither a positive nor negative impact on the country's competitiveness, while 31 percent anticipate negative effects and 26 percent expect positive effects (Figure 23).

Figure 23



Luxembourg business leaders are also not in agreement when it comes to their assessments of how the country's competitiveness will be affected by another measure included in the package of tax reforms, i.e. increasing the minimum net wealth tax for holding and finance companies ("SOPAFRIs"). In this case, a relative majority of 44 percent of the entrepreneurs interviewed do not expect the measure to have any effect, while 37 percent think it will have a negative impact and 8 percent even anticipate a positive impact (Figure 24).

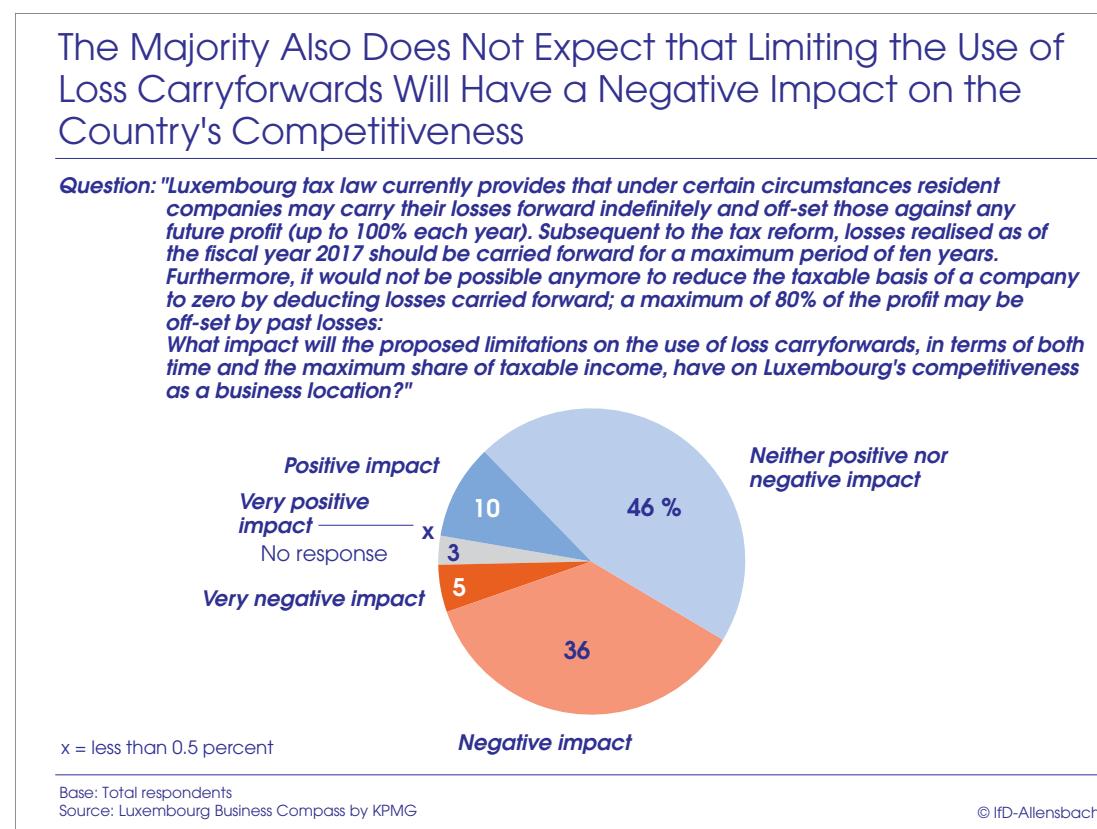
Figure 24



Business leaders' assessments are similar when it comes to the planned limitation of the use of loss carryforwards. Until now, companies could carry their losses forward and offset these against any subsequent profits indefinitely, up to the full amount of the profits achieved. Under the new plan, losses incurred as of next year may only be carried forward and offset against any profits for a maximum period of ten years. In addition, it will only be possible to offset a maximum of 80 percent of taxable profits by prior losses.

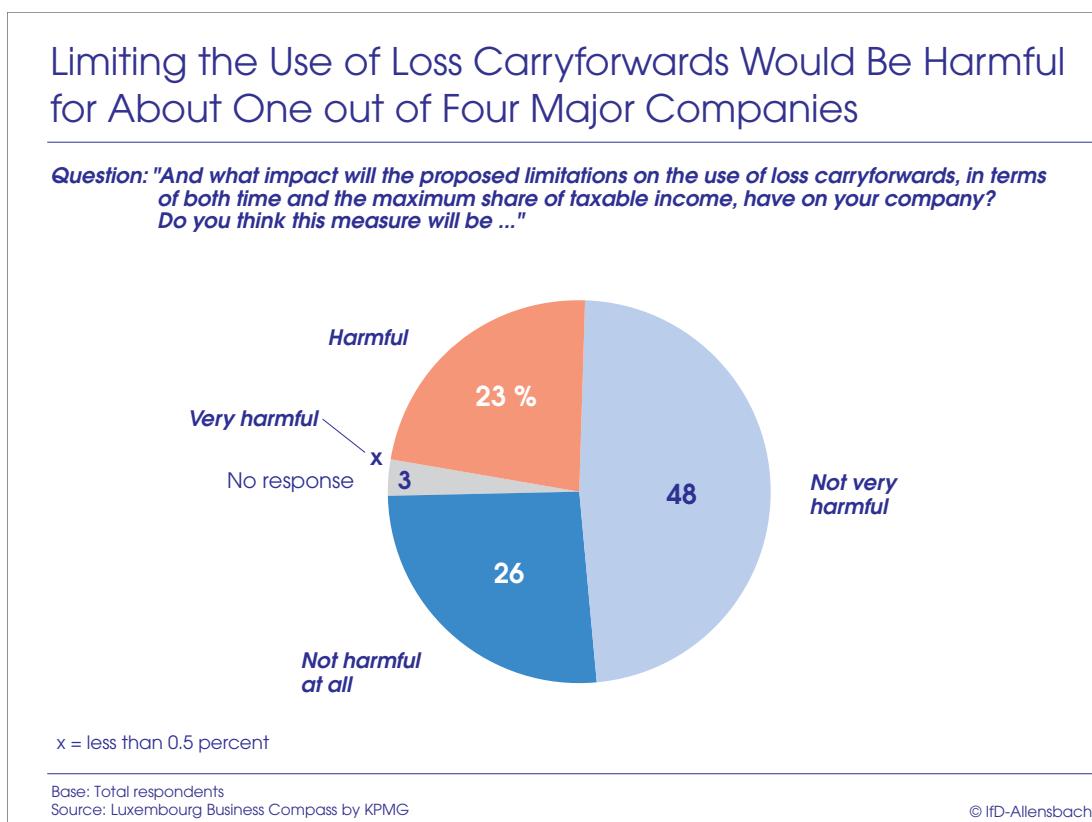
Just under half of major Luxembourg companies expect that these changes will have no impact on the country's competitiveness, as compared to 41 percent who expect a negative or even very negative impact. 10 percent of the entrepreneurs interviewed believe the measure will have a positive impact (Figure 25).

Figure 25



About one quarter of decision-makers expect that limiting the use of loss carryforwards will be harmful to their own companies, whereas about half believe it will not be very harmful and an additional quarter do not believe it will be harmful at all. None of the entrepreneurs interviewed assume that this change will have a very harmful impact on their own companies (Figure 26).

Figure 26



On the whole, about half of Luxembourg business leaders do not expect that the proposed package of changes relating to the corporate tax will have any major impact on the country's competitiveness as a business location. An additional 23 percent expect a positive impact on the whole, while 18 percent anticipate a negative impact. No respondents expect the measures to have either a very positive or very negative impact (Figure 27).

When it comes to their own companies, more than two thirds of Luxembourg decision-makers say the reform will have no impact on balance, as compared to only 15 percent who expect a positive impact and 12 percent who expect a negative impact. Here too, no respondents anticipate a very positive or very negative impact (Figure 28).

Figure 27

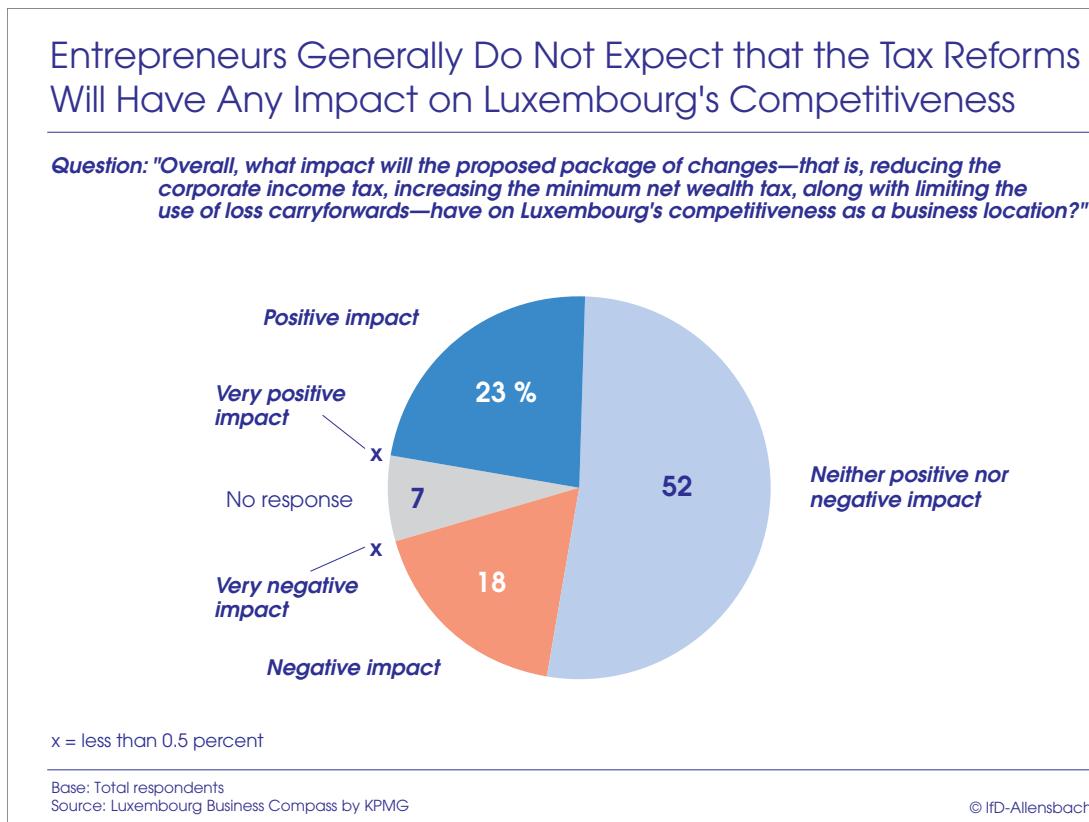
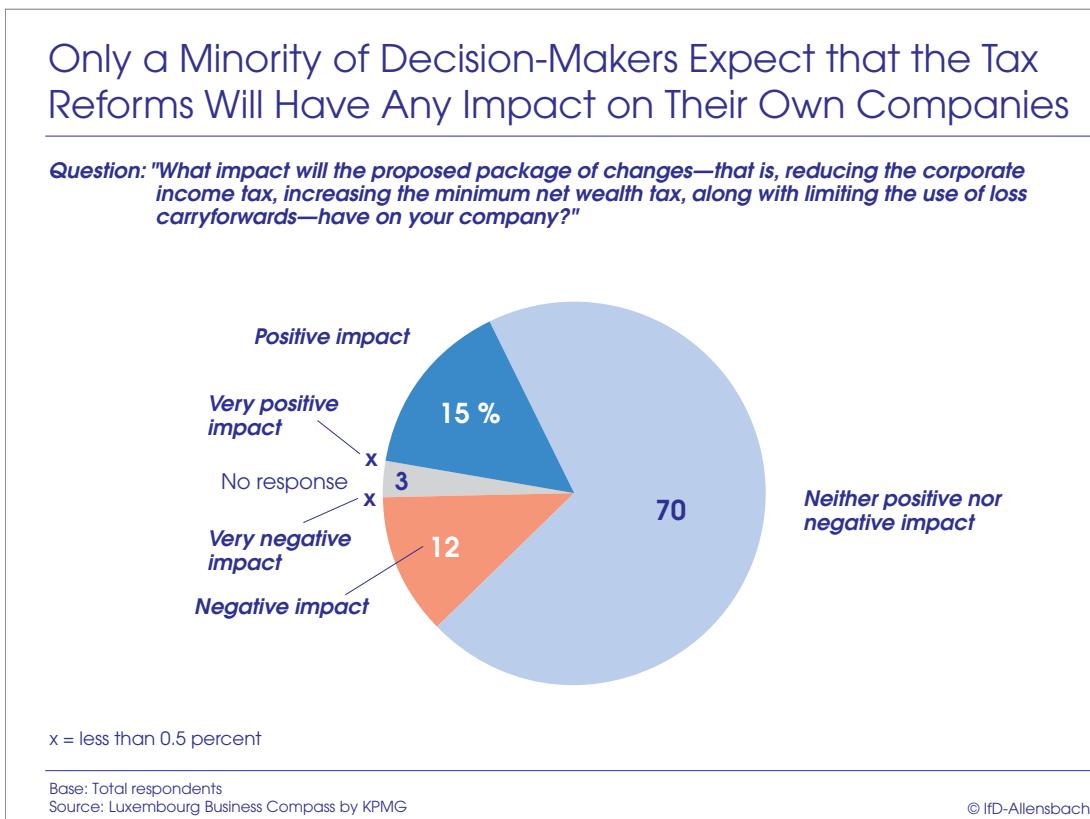


Figure 28



More flexible working hours are important—but the planned reform of the PAN law is viewed critically

For almost three quarters of major Luxembourg companies, having greater flexibility regarding their employees' working hours would be important or even very important (Figure 29).

Nevertheless, a majority rejects the government's proposed reform of the PAN law, which would allow companies to extend the period of reference, that is, the time in which employees' working time accounts must be balanced out, from one to four months (Figure 30).

Figure 29

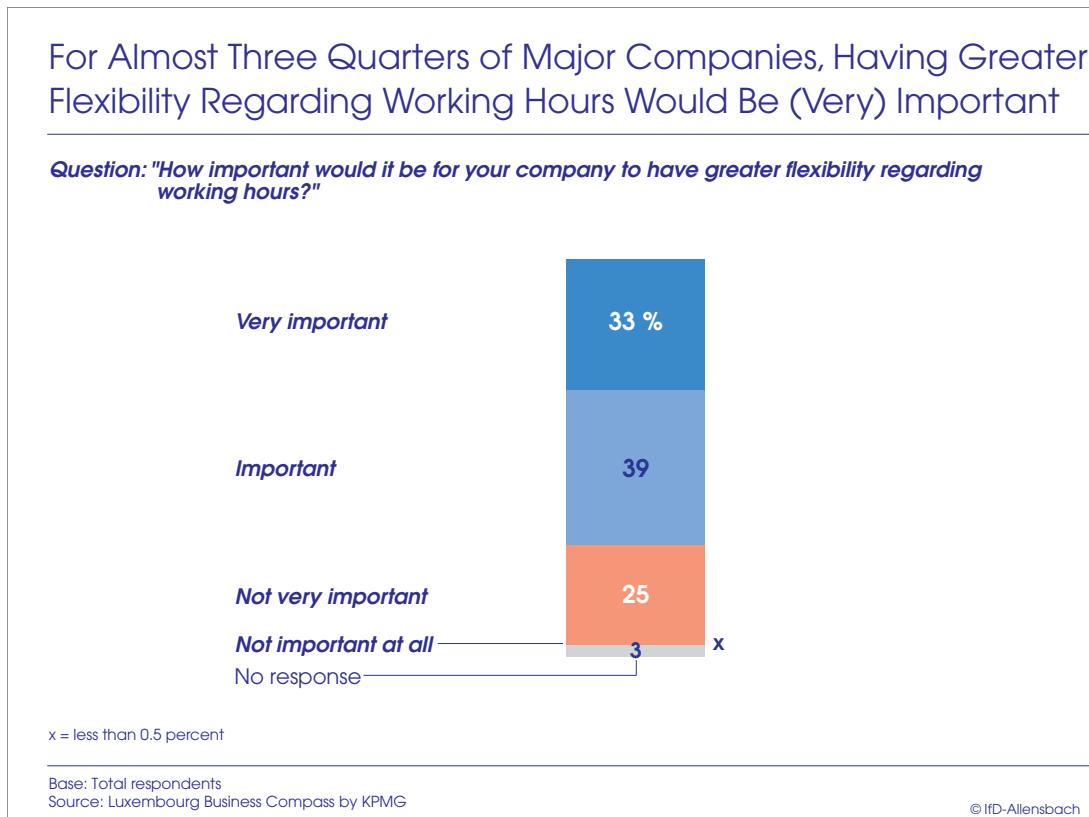
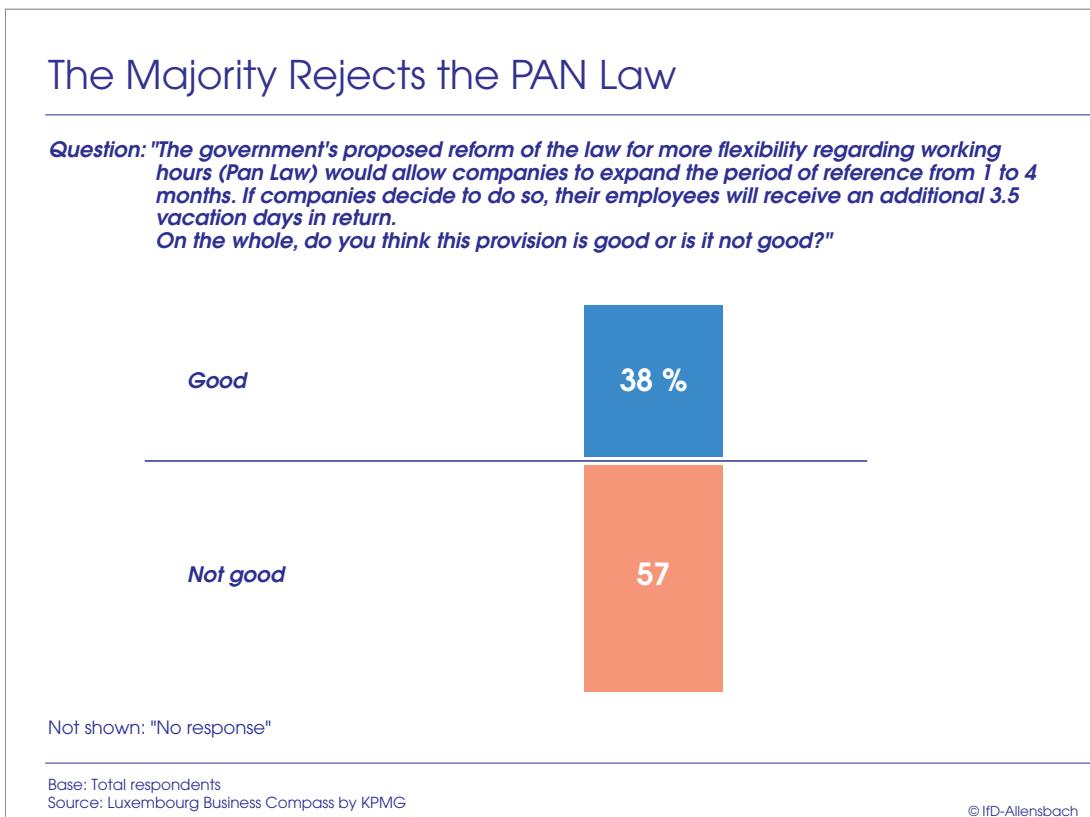
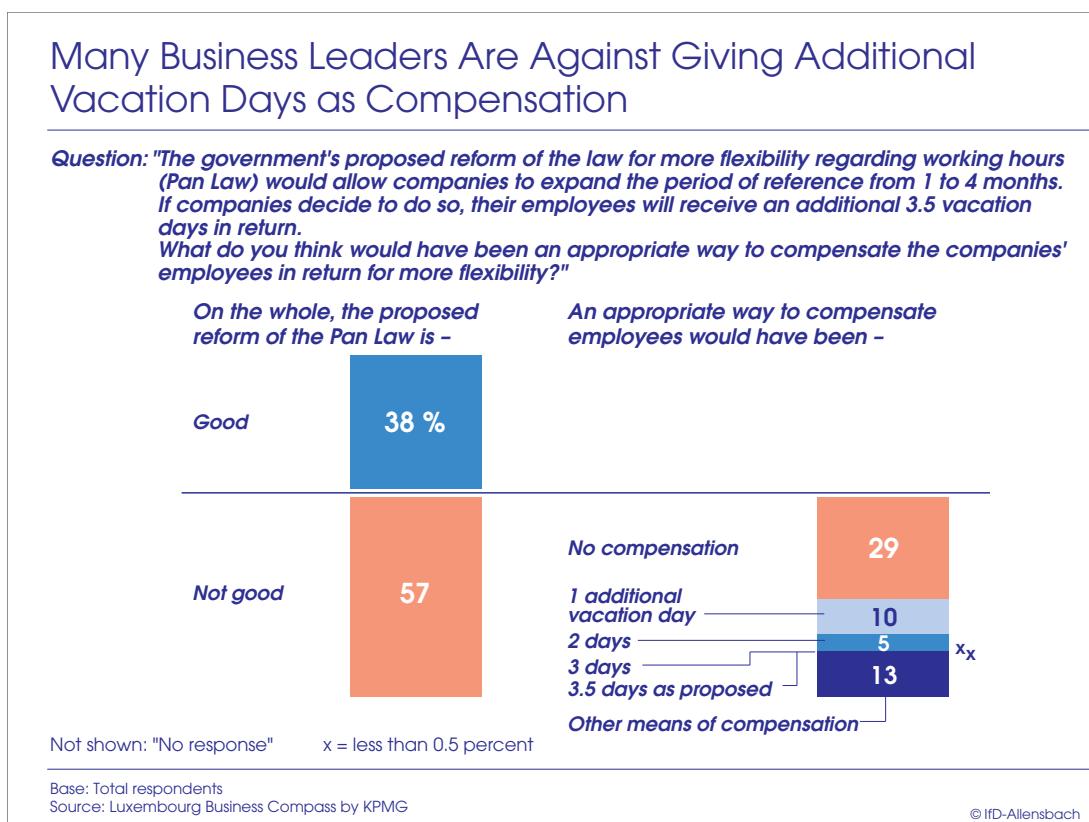


Figure 30



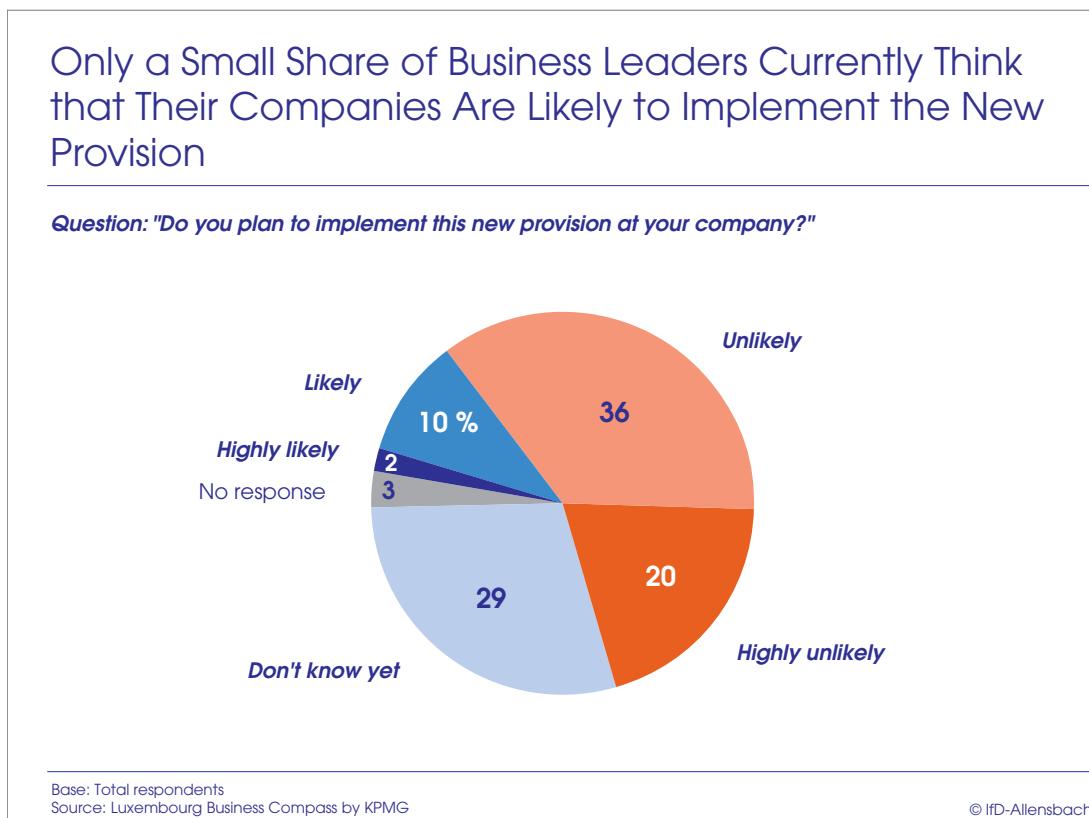
Business leaders are especially critical of the plan to compensate employees by giving them 3.5 additional vacation days. The great majority of those who are opposed to the plan would not give employees any compensation at all, or they would prefer that employees be given either some other means of compensation or one additional vacation day at most (Figure 31).

Figure 31



Moreover, even though about three quarters of major Luxembourg companies say that having greater flexibility regarding their employees' working hours is very important or important⁵, only 11 percent currently state that their companies are likely or highly likely to implement this new provision (Figure 32).

Figure 32



⁵ Cf. Figure 29

A P P E N D I X

Survey data

SURVEY DATA

Overall responsibility for methods:	Institut für Demoskopie Allensbach
Planning and drawing the sample:	KPMG Luxembourg
Group of persons interviewed (universe):	Top decision-makers at the largest companies in Luxembourg, as defined by the number of employees
Sampling method:	<u>Top-down approach stratified according to business sectors</u> The sample was drawn based on the directory ^(*) of the Luxembourg statistics bureau (Statec), which lists companies with 90 employees or more in Luxembourg. For each business sector, the number of companies included in the survey was roughly commensurate with the sector's share of the gross domestic product (GDP) of Luxembourg, whereby the companies were selected in descending order according to the number of employees. In the companies selected to participate, every effort was made to persuade a representative of the upper management (owner, CEO, CFO, COO, etc.) to complete the online survey.
Number of respondents:	61
Type of interviews:	Online survey completed after prior notification in writing or by telephone
Fieldwork dates:	May 26 – June 10, 2016
IfD Archives Survey No.:	7246

(*) Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2
Situation au 1er janvier 2015 (édition juin 2015)