

## Key messages:

- An annual GDP growth of +3.0% is projected for 2019.
- Fiscal surplus is projected to decrease from +2.6% in 2018 to +1.0% in 2019.
- For the period under review 2018-2022, the medium-term budgetary objective is met with a minimal MTO set (by the European Commission) at -0.50% for 2018-2019 and +0.50% for 2020-2022.
- Public debt for 2018 is decreasing to 21.4% of GDP. In absolute terms, the gross debt is projected to continue an upward trajectory in the medium term 2020-2022 while respecting the debt ceiling of 30% of GDP, as promised in the coalition agreement.

## Macroeconomic outlook

In 2019, the real GDP growth rate for Luxembourg is projected to be at +3.0%. In 2020, according to the national statistic authority (STATEC), GDP growth is expected to remain solid (+3,8%) amid growing downside risks such as the worsening trade relations between the US & China, and Brexit. STATEC explains this rebound in growth by the upturn of the Eurostoxx that will benefit Luxembourgish exports of financial services. In comparison to forecasts of the EC (2,7%), the national projection for 2020 seems relatively optimistic. In 2021 and 2022, economic growth in Luxembourg is projected to remain strong, whereas the economic situation in the euro area is expected to slow down.

However, the CNFP draws attention to the methodological problems concerning the estimation of the GDP. The GDP is substantial in the calculation of the structural balance, hence an erroneous GDP may affect the structural balance and poses risks to a coherent fiscal policy that is in line with the economic cycle.

## Short-term fiscal outlook

In 2018, public revenues experienced an exceptional increase of +10.0% and public expenditure accelerated likewise with +7.2%. In 2019, revenue growth is projected to be moderate with +2.0%, whereas public expenditure remains at elevated high level of +5.6% (see chart 1).

## Medium-term fiscal outlook

In the medium term, the nominal balance is expected to improve gradually towards 2% of GDP in 2022. In absolute terms, gross debt will continue to rise in the medium term to reach € 13,200 million by 2022. However, in terms of percentages of GDP, public debt will fall slightly and public administration will respect the 30% debt ceiling as promised in the coalition agreement.

## Fiscal framework and national fiscal rules

Regarding the structural balance and its compliance with the MTO, the CNFP points out that there are several methods for determining potential GDP, and hence the output gap and the structural balance. Independently of the method used, Luxembourg should comply with the MTO over the entire period (see chart 2).

In addition to the sensitivity analysis undertaken by the budgetary authorities, the CNFP has examined the effects of a negative external environment (worsening trade relations between China and US and Brexit) and higher interest rates on the structural balance. The CNFP came to the conclusion that the MTO would be respected along the period under review despite these negative shocks.

Chart 1: Evolution of the rate growth of public revenue and expenditure

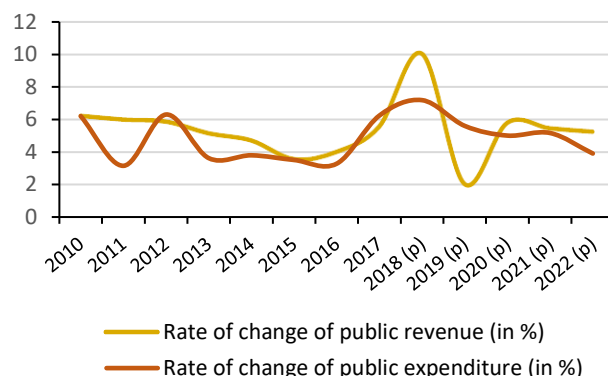
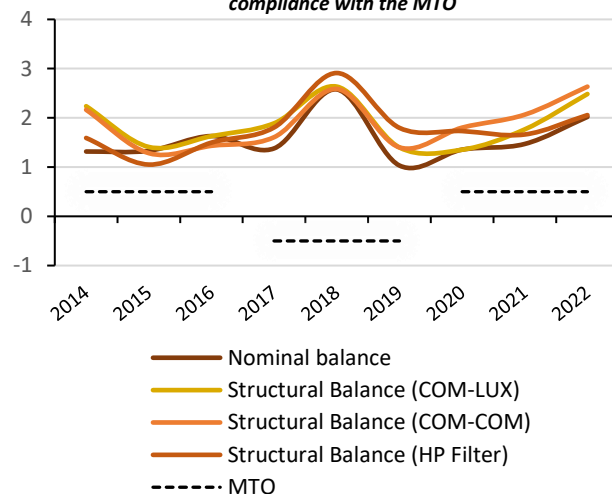


Chart 2: Evolution of the structural balance and compliance with the MTO



Key indicator forecast		2018	2019 f	2020 f	2021 f	2022 f
Real GDP growth rate – MoF est.	[% y-to-y]	3.0	3.0	3.8	3.5	3.0
Output Gap – MoF est.	[% of GDP potential]	-0.1	0.3	1.1	0.8	0.4
GG balance – MoF est.	[% of GDP]	2.6	1.0	1.4	1.5	2.0
GG debt – MoF est.	[% of GDP]	21.9	20.2	19.9	19.3	18.4
GG structural balance – MoF est.	[% of GDP]	2.6	0.9	0.8	1.1	1.8

### Sources:

Draft Budget for 2019 (2019 DB),  
March 2019  
Draft multiannual financial  
programming law for the period of  
2018-2022 (2018-2022 PLFP),  
March 2019

CNFP, Assessment of the 2019 DB  
and 2018-2022 PLFP, March 2019