Luxembourg

Country note, June 2020

cnfp conseil national des finances publiques luxembourg

Key messages:

- **As a response to the COVID-19 outbreak, the general escape clause of the Stability and Growth Pact was activated.**
- **Therefore, any sanction mechanism in case the public finances deviate from the applicable budgetary targets are suspended.**
- **The Commission provided guidelines on the forthcoming submission of the Stability and Growth Programmes (SGPs): Minimum guidelines on the content and form of the 2020 SGPs in line with the requirements of Regulation (CE) 1466/97.**

Fiscal framework and national fiscal rules

The 2020 SGP refers to the activation of the general escape clause of the Stability and Growth Pact by the EC, which temporarily suspends any sanction mechanism from the European authorities in case the public finances of the Member States deviate from the applicable budgetary targets.

Article 6 (1) of the amended law of 12 July 2014 on the coordination and governance of public finances refers to article 3 (3), point b) of the Treaty on Stability, coordination and governance which provides that "exceptional circumstances refers to the case of an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as set out in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium-term".

Macroeconomic outlook

Due to the COVID-19 crisis, the 2020 SGP presents a significant revision of the GDP for the short term. The projected real GDP growth rate for Luxembourg will experience a drop of 6.0% in 2020 followed by a "mechanical" rebound of 7.0% in 2021.

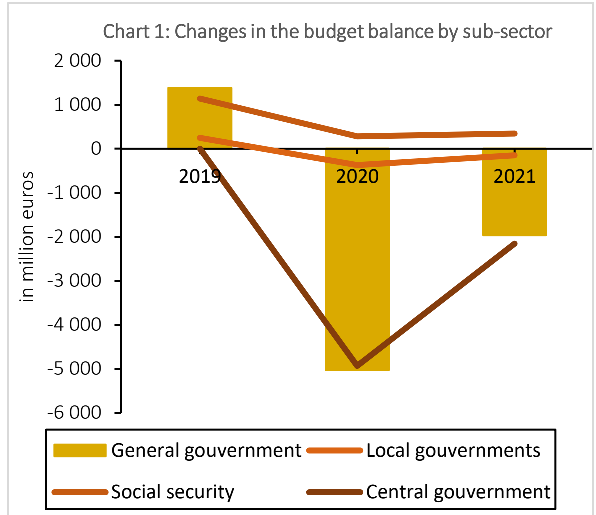
The employment growth will be sharply attenuated and unemployment will keep on rising. The macroeconomic forecast remains surrounded by a mist of uncertainty greater than usual.

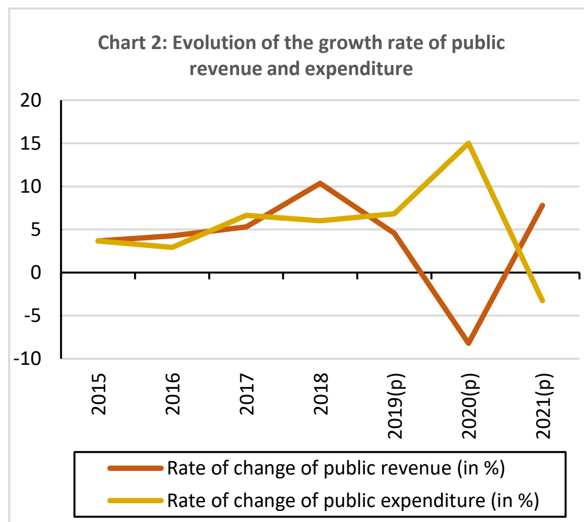
Short-term fiscal outlook

The COVID-19 crisis results in a deterioration of the nominal balance of general government for 2020 and 2021. The public deficit is estimated at more than 5 billion euros in 2020 (8.5% of GDP) followed by a recovery in the balance in 2021, but still with an estimated deficit level of nearly 2 billion euros (3.0% of GDP).

The impact of the COVID-19 crisis is associated with a macroeconomic impact and a so-called "direct" impact followed by the government's discretionary measures. After deducting the amount of theses impacts, the total expenditure and revenue as well as the residual balances show only limited deviations from those of the draft multiannual financial programming law for the period 2019-2023.

After the publication of the 2020 SGP, the government has already announced an additional package of economic support measures, known as "Neistart Lëtzebuerg", (at an estimated cost of 700-800 million euros) which aims to lay the groundwork for a new start for the Luxembourg economy for the post-pandemic future.





Key indicator forecast

		2019 f	2020 f	2021 f
Real GDP growth rate – MoF est.	[% y-to-y]	2.3	-6.0	7.0
GG balance – MoF est.	[% of GDP]	2.2	-8.5	-3.0
GG debt – MoF est.	[% of GDP]	22.1	28.7	29.6

Sources:

Stability and Growth Programme of Luxembourg for 2020, 27.04.2020;

CNFP, Assessment of the 2020 SGP, March 2019