Public Finance Assessment of the 2026 draft budget (2026 DB) and the draft multiannual financial programming law for the years 2025-2029 (2025-2029 PLPFP)

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Article 30 of the draft budget law introduces several amendments to the Law of 12 July 2014 on the coordination and governance of public finances. Notably, the National Council of Public Finances (CNFP) has been assigned the mission of assessing the rules related to the European budgetary framework. The chapters relating to the structural balance and the medium-term budgetary objective (MTO) have not been modified by the draft budget law under review. The CNFP concludes that the MTO criterion remains in force at the national level and notes that the MTO of 0.00% of GDP would be respected over the period 2025–2027. From 2028 onwards, the structural balance would exceed the MTO, with a significant deviation projected in 2029.

The CNFP reminds that the MTO takes into account one third of the projected future costs linked to population ageing, which are expected to rise from 17.2% of GDP in 2022 to 27.9% of GDP in 2070 in Luxembourg, thereby integrating the long-term sustainability dimension of public finances. Should the MTO concept be maintained at the national level, Luxembourg would have the possibility to adapt the calculation methodology to specific national circumstances, i.e., by adopting a more nuanced approach for certain categories of expenditure, such as investments. Beyond defining a new national fiscal rule, the CNFP reiterates its proposal to decouple the multiannual component from the annual budget to make better use of the medium-term budgetary framework as a strategic tool. In any case, the new national framework should ideally be defined with a medium- and long-term view and be adapted to the country's current and future challenges (ageing population, housing, energy and digital transition, mobility, defense, etc.).

The economic and fiscal outlook for Luxembourg, as well as for the euro area, remains highly uncertain, given the fragile and unstable international macroeconomic context resulting from persistent geopolitical and trade tensions. On the budgetary side, it is important to note that the budget documentation take into account neither the impact of the planned tax reform (scheduled to take effect in 2028) nor the additional defense spending required to meet the new NATO target of 5% of GNI, beyond the 2% of GNI already included in the 2025–2029 PLPFP. While this stems from the fact that the (multiannual) budget is established on a no-policy-change basis, both items will result in additional pressure on public finances over the medium-term. The cost of the tax class reform is estimated at approximately EUR 850 million in both 2028 and 2029, while, according to an CNFP estimate, the additional defense effort would reach around EUR 880 million in 2029 (EUR 190 million in 2026, EUR 400 million in 2027, and EUR 630 million in 2028), assuming a linear increase in defense spending from 2025 until 2035. Some investment expenditures, currently recorded under other budget headings, could nevertheless be eligible as part of the 1.5% of GNI allocated to non-essential defense spending included in the overall 5% of GNI envelope. This could halve the additional defense spending required, reducing it to around EUR 440 million in 2029.

Regarding macroeconomic forecasts, the Luxembourg economy is expected, according to the 2025–2029 PLPFP, to grow by 1.0% in 2025 and 2.0% in 2026, before stabilizing at 2.3% in the medium term (2027–2029). The CNFP notes a significant downward revision of the 2025 growth forecast compared to the 2024–2028 LPFP of October 2024 (1.0% vs. 2.7%). The weak short- and medium-term growth, below the historical average of 2.9% (1995–2024), is also expected to be reflected in the labor market. Employment should increase by 1.0% in 2025, by 1.5% in 2026, and reach 1.9% in 2029, remaining below its historical average growth rate of 3.0% (1995–2024). These forecasts are more cautious than those presented in the 2024–2028 LPFP (1.5% in 2025 and 2.5% in 2028). The unemployment rate is expected to decline from 6.0% in 2025 to 5.1% in 2029. The inflation rate is projected to reach 2.1% in 2025, then declining to 1.4% in 2026 as a result of the State's partial coverage of the electric grid costs, before stabilizing at around 2.0% over the period 2027-2029.

The nominal balance of the general government would remain negative throughout the period, moving from a deficit of 706 million euro in 2025 (0.8% of GDP) to 1 264 million euro in 2029 (1.1% of GDP). This gradual increase in the deficit is explained by the persistence of large deficits in the central government (around EUR 1.5 billion on average per year between 2026 and 2029), combined with a deterioration of the social security surplus, projected to decline from 996 million euro in 2026 to 145 million euro in 2029. Central government revenues would no longer achieve their historical growth rate (+4.5% per year on average for 2025–2029 vs. +6.5% for 1996–2024), while expenditure growth would remain high (+6.1% in 2025 and +5.7% in 2026). In the medium-term, the projected moderate expenditure growth (+4.7% on average over 2027–2029 vs. +6.5% over 1996–2024) would require significant saving efforts. For social security, the measures adopted in the context of the "Sozialronn" would delay the deterioration trajectory of the balance compared to that projected in the 2024–2028 LPFP, but only by two years. Considering the indicative and hypothetical costs of the planned tax reform and the additional defense effort mentioned above, estimated by the CNFP at between EUR 1.3 billion and EUR 1.7 billion in 2029, the general government deficit could rise to between EUR 2.6 billion (2.3% of GDP) and EUR 3.0 billion (2.7% of GDP) in 2029, compared with the EUR 1.3 billion euro (1.1% of GDP) projected in the 2025–2029 PLPFP. This, unless these costs are offset by savings and/or additional revenues. The Maastricht criteria would still be met, but the question remains as to what fiscal space the State would have in the future, particularly in the event of future economic or geopolitical shocks.