Luxembourg

Country note, July 2019

cnfp conseil national des finances publiques luxembourg

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 +0.9% in 2019.**
- **For the period under review, 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 2020-2023 while respecting the debt ceiling of 30% of GDP, as promised in the coalition agreement.**

The parliamentary elections in October 2018 affected the Luxembourgish budgetary calendar 2019. As the SGP for the period 2019-2023 was presented less than 2 months after the 2019 DB and 2018-2022 PLPFP, the government decided to base the SGP on the same macro-budgetary figures, while adding forecasts for the year 2023. Hence, the CNFP examined, in a separate assessment in May 2019, whether the latest available macro-budgetary data (particularly the EDP notification data of 1st April) would have affected the conclusions of the SGP and the compliance with the MTO and, therefore, would have required the government to update the figures in the SGP. The CNFP concluded that although some new elements appeared important at first sight, they did not affect the respect of the MTO over the period.

In the following, the CNFP presents its conclusions of the 2019 DB and 2018-2022 PLPFP and hence of the SGP who is based on the same macro-budgetary figures.

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. Between 2021 and 2023, economic growth in Luxembourg is projected to remain strong, whereas the economic situation in the euro area is expected to slow down.

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 2.2% of GDP in 2023. In absolute terms, gross debt will continue to rise in the medium term to reach € 13,000 million by 2023. 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 complies with the MTO over the entire period (see chart 2).

Chart 1: Evolution of the rate growth of public revenue and expenditure (in %)

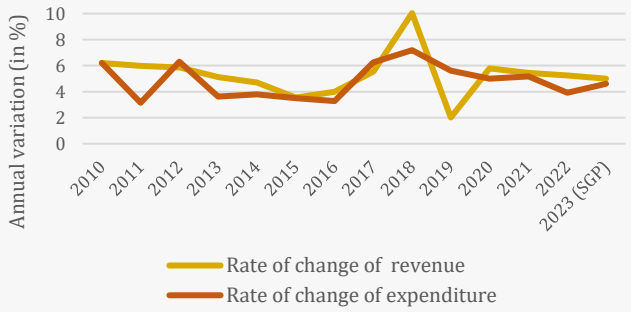
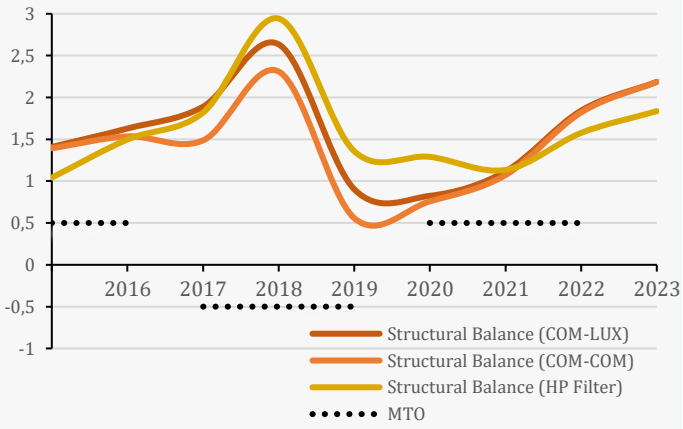


Chart 2: Evolution of the structural balance and compliance with the MTO (in % of GDP)



Key indicator forecast

		2018	2019f	2020 f	2021 f	2022 f	2023 f (SGP)
Real GDP growth rate – MoF est.	[% y-to-y]	3.0	3.0	3.8	3.5	3.0	2.5
Output Gap – MoF est.	[%]	-0.1	0.3	1.1	0.8	0.4	0.0
GG balance – MoF est.	[% of GDP]	2.6	1.0	1.4	1.5	2.0	2.2
GG debt - MoF est.	[% of GDP]	21.4	20.2	19.9	19.3	18.4	17.3
GG structural balance - MoF est.	[% of GDP]	2.6	0.9	0.8	1.1	1.8	2.2

Sources:
Draft Budget for 2019 (2019 DB), March 2019;
Draft multiannual financial programming law for the period of 2018-2022 (2018-2022 PLPFP), March 2019;
SGP for the 2019-2023 period, 23.04.2019;

CNFP, Assessment of the 2019 DB and 2018-2022 PLPFP, March 2019 / Assessment of the 2019 SGP, Mai 2019.

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