

Press release – 28 May 2019

Assessment of the Stability and Growth Programme for the period 2019-2023

The National Council of Public Finance (CNFP or Council) presents its observations on the **Stability and Growth Programme for the period 2019-2023 (SGP 2019)**.

The Government decided to base the SGP 2019 on the same macrobudgetary figures than the draft Budget 2019 and the draft multiannual financial programming law for the period 2018-2022 (2018-2022 PLPFP), while adding forecasts for 2023. As stated in the SGP 2019, the latest available macrobudgetary data resulting from national accounts and incorporated in the EDP (*Excessive Deficit Procedure*) notification tables of 1st April 2019 were not integrated. The Government explained this decision by the concern of coherence between the SGP 2019, communicated to the European Union on the 23rd April 2019, and the vote of the Budget 2019 and the 2018-2022 LPFP on the 25th April 2019. Furthermore, the Government argues in a footnote of the SGP 2019 that the integration of the latest macrobudgetary figures would not have greatly influenced the findings of the SGP 2019.

The CNFP notes that the **Government's approach is guided by the concern of coherence**. However, the Council bemoans that the Government did not prove that the latest figures do not affect the conclusions of the SGP 2019, and ergo the compliance with the medium term budgetary objective (MTO).

As the Council has already analysed in detail the macrobudgetary figures in its *Assessment of the draft Budget 2019 and 2018-2022 PLPFP*¹, published on the 25th March 2019, the CNFP decided not to publish an exhaustive report on the SGP 2019. Nevertheless, the CNFP examined in his short assessment **whether the latest macrobudgetary figures affect - or not - the Government's compliance with the MTO**, and thus **whether the Government would have been required to update the figures of the SGP 2019**, (and consequently, the figures of the 2018-2022 LPFP).

Among the new elements that should be stated, appear:

- The **updated national accounts** that were integrated in the EDP notification tables, including the revision of the real GDP for 2018 from 3.0% to 2.6% and the decrease of the general government balances of around 100 million euros for 2018 and 2019;
- A **good collection of taxes** within the 1st trimester of 2019, in particular of corporate taxes (as noted by STATEC in its publication "*Conjoncture Flash, avril 2019*").

Additionally, it seems appropriate to note that the European Commission's GDP forecasts in May 2019 (2.5% in 2019; 2.6% in 2020; 2.1% in 2021, 2022 and 2023) are more prudent than the forecasts of the Luxembourgish government (3.0% in 2019; 3.8% in 2020, 3.5% in 2021; 3.0% in 2022; 2.5% in 2023). This reinforces the rather optimistic character of the macroeconomic forecasts made in the SGP 2019 (and hence in the LPFP 2018-2022) that was already highlighted in the March 2019 report.

The analysis of the CNFP concerning the impact of these new elements on the structural balance of the general government and the respect of the OMT shows that the structural balances of the year 2019 and 2020 are negatively affected by the figures of updated national accounts. Nonetheless, regardless of the method of calculation and simulation carried out, the public administrations should **comply with the budgetary rule under the modified 12 July 2014 Law** on the coordination and governance of public finances concerning the conformity of the structural balance with the MTO of -0.5% of GDP in 2018 and 2019 and of +0.5% of GDP between 2020-2022. Consequently, there is no need to trigger the correction mechanism during the period under review.

¹ <https://cnfp.public.lu/en/evaluations/2019/evaluation-mars-2019.html> .