

Key messages:

- An annual GDP growth of +2.4% is projected for 2019 and 2020
- Fiscal surplus is projected to decrease from +2.0% in 2019 (important actualisation since the 2019 Budget where 2019 was estimated to have a fiscal surplus of +1.0%) to +1.2% in 2020.
- The medium-term budgetary objective is met with a MTO set (at the minimal level defined by the European Commission) at -0.50% for 2019 and +0.50% for 2020-2022.
- For the period 2019-2023 the structural balance presents a margin relative to the MTO. Due to the uncertainties surrounding the macroeconomic and fiscal forecasts, this margin may not be achieved.
- Public debt for 2019 is decreasing to 20.0% 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.

Macroeconomic outlook

The 2019-2023 PLPFP presents a significant downward revision of the GDP for the short term. The updated real GDP growth rate for Luxembourg is projected to be at 2.4% in 2019 and 2020. The projections for the medium term (around 3.0%) stem from the forecasts already published in mars 2019 by STATEC. Given this partial update of the macroeconomic scenario and the volatility of the forecasts, the accuracy of the medium-term projections is questionable. Indeed, based on historic forecast errors, the CNFP finds that uncertainty levels of ± 0.39 (2019) and ± 0.67 (2020) percentage points surround the projection of the real GDP as presented in the 2019-2023 PLPFP (see chart 1).

Short-term fiscal outlook

In 2019 and 2020, revenue growth is projected to be moderate (with 5.5% and 4.2%) whereas public expenditure is projected to experience an exceptional increase (with 7.1% and 6.3%), against a common historical growth of 6.1% (see chart 2).

Medium-term fiscal outlook

According to the 2019-2023 PLPFP, the nominal balance is expected to improve gradually in the medium term (2021-2023) to reach 2% of GDP by 2023. On the one side, the 2019-2023 LFPF assumes a gradual recovery of government revenues (5.1%). On the other hand, public spending is expected to increase less quickly (4.5%) (see chart 2). The CNFP questions however the accuracy of this medium-term fiscal outlook. Although past experiences show that balances have frequently improved, there are several downside risks in the medium term (e.g. the tax reform planned for this legislature is implicitly supposed to be budget-neutral whereas the personal income tax forecast, established under unchanged policy, presents a much higher rate of growth than the GDP, hypothesis of a less dynamic evolution of certain categories of expenditure (investments, remunerations) and lack of impact of the announced package of measures to combat climate change).

Fiscal framework and national fiscal rules

Based on the forecasts presented in the PLPFP 2019-2023, the CNFP finds that Luxembourg should be compliant with the MTO rule over the period 2019-2022.

The CNFP notes that the 2019-2023 PLPFP presents structural balances with some margin relative to the MTO. Due to the uncertainties surrounding the macroeconomic and fiscal forecasts, this margin may not be achieved. The CNFP concludes that a margin between the structural balance and MTO remains desirable, in particular if one takes into account the volatility of forecasts and the objective of sustainable public finances.

Chart 1: Projected real GDP of the 2019-2023 PLPFP in a confidence interval of 30%, 60% et 90%

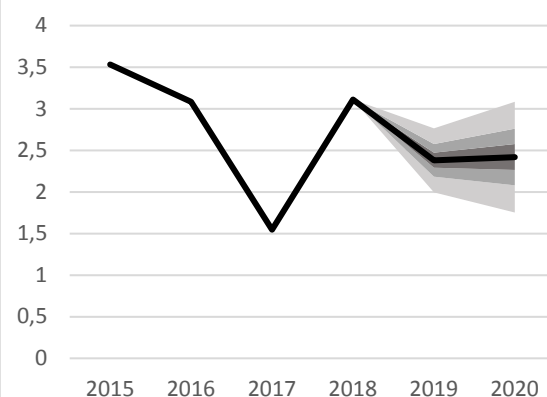
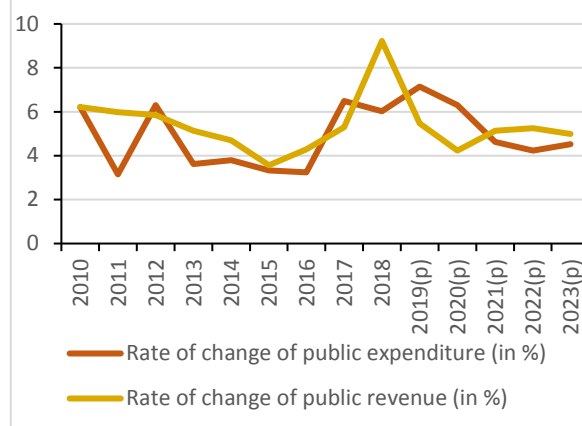


Chart 2: Evolution of the growth rate of public revenue and expenditure



Sources:

Draft Budget for 2020 (2020 DB), October 2019

Draft multiannual financial programming law for the period of 2019-2023 (2019-2023 PLPFP), November 2019

CNFP, Assessment of the 2020 DB and 2018-2022 PLPFP, March 2019

Key indicator forecast

		2018	2019 f	2020 f	2021 f	2022 f	2023f
Real GDP growth rate – MoF est.	[% y-to-y]	3.1	2.4	2.4	3.5	3.0	2.5
Output Gap – MoF est.	[% of GDP potential]	1.2	0.9	0.5	0.7	0.5	0.2
GG balance – MoF est.	[% of GDP]	2.7	2.0	1.2	1.4	1.8	2.0
GG debt – MoF est.	[% of GDP]	21.0	20.0	19.8	19.3	18.5	17.5
GG structural balance – MoF est.	[% of GDP]	2.1	1.6	0.9	1.0	1.6	1.9