

Public Finance Assessment –regarding the 2022 draft budget (“2022 DB”) and the draft multiannual financial programming law for 2021-2025 (“2021-2025 PLPFP”)

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In its latest “Public Finance Assessment”, the National Council of Public Finances (CNFP) takes note of the government’s use of the "exceptional circumstances" clause **for the years 2020 to 2022**. This clause was triggered following the application at European level of the “general escape clause” following the COVID-19 crisis. As a result, the European budgetary rules are not applicable and the Government is not obliged to respect the medium-term budgetary objective (MTO) currently set at +0.50% of GDP, neither in relation to the European framework, nor in relation to the Luxembourg national legislation.

For the years 2023 to 2025, the 2021-2025 PLPFP sets the MTO at +0.50% of GDP, which is fully in line with national legal provisions, considering in particular that:

- the structural balances presented in the 2021-2025 PLPFP would *a priori* respect the MTO, in any case an MTO of +0.50% of GDP ;
- the new minimum MTO for the period 2023-2025 will be set by the European Commission (EC) only in April 2022 ;
- the data of the Ageing Report 2021 (EC) does not contain evidence that this minimum MTO would exceed the current threshold of +0.50%.

On the macroeconomic side, the Luxembourg economy appears less impacted by the crisis than the euro zone as a whole. The underlying trend follows a V-shaped pattern that is however more pronounced on the recovery side (real GDP of 6% in 2021) than on the recession side (real GDP of -1.8% in 2020). From 2023 onwards, the CNFP notes that current forecasts are very close to those of the 2019-2023 LPFP, established just before the onset of the pandemic.

With regard to the budgetary forecasts, it is obvious that the COVID-19 crisis and the measures taken by the Government to support households and businesses will result in a deterioration in the nominal balances of the general government (-3.6% of GDP (-2.3 billion euros) in 2020 and -0.6% of GDP in 2021). Nevertheless, the nominal balances have improved compared to those forecasted by the Stability and Growth Program 2021 (PSC 2021), at least in the short term, and this by around 1 billion euros. In the medium term (2023-2025), the projected increases in government revenues (+1 061 million euros on average vis-à-vis the PSC 2021 figures) appear to have been utilized to balance a projected increase in government expenditures (+997 million euros in average vis-à-vis the PSC 2021 figures). Compared to the 2019-2023 LPFP, the current budgetary forecasts obviously present a significant deterioration of the nominal balance, by about 1.6 billion euros in 2023. However, it should be noted that the profile of current revenue forecasts is close to that realized before the pandemic (which is in line with the recovery of nominal GDP to a level comparable to that estimated at the time). On the other side, current expenditure forecasts increase at a faster pace, particularly for the central government. The deterioration of the balance is therefore due more to an increase in expenditure than to a decrease in revenue.

Although the objective of keeping the **public debt** below 30% of GDP seems to be respected over the whole period, the CNFP notes that the public debt is estimated to increase by almost 10 percentage points of GDP (around 7 billion euros) compared with the debt trajectory forecast in the 2019-2023 LPFP.