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DE BUDGETSPLANG 2022

Draft Budgetary Plan

LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Finances

Courtesy translation of the original French document.
In case of a discrepancy between the original version and the translated text, the original version shall prevail.

1. Introduction

In accordance with Article 6 of EU Regulation 473/2013, Luxembourg hereby presents its **Draft Budgetary Plan for 2022 (DBP 2022)**.

Luxembourg's **DBP 2022 is based on the most recent macroeconomic forecasts** produced independently by STATEC and it **draws upon the fiscal targets presented in the draft state budget 2022.** The Government submitted the draft state budget 2022 to parliament on 13 October 2021. Unless indicated otherwise, the budgetary figures are presented in accordance with the ESA2010 framework.

Through a **balanced response to the health crisis**, the Government has managed to limit the socio-economic impact of the crisis on the national economy in 2020 and 2021. The government support packages to help businesses and households and the extension of certain flagship measures, including the short-time working scheme in relation with the COVID-19 pandemic, together with **targeted health restrictions**, have helped to prepare the ground for a sustained recovery.

The **normalisation of economic activity is now fully underway**, particularly following the rapid progress of the vaccination campaign. After a record public deficit in 2020, Luxembourg's public finances have begun to recover in 2021. The general government deficit in 2021, driven by a strong rebound in government revenues, is expected to set significantly below the 3% of GDP threshold, with continued improvement foreseen in 2022.

The **budgetary targets in 2022** are clearly geared towards the recovery of the economy, while addressing the priorities of the 2018-2023 coalition agreement. Luxembourg's budgetary strategy is based on the promotion of qualitative growth and job-creation, while addressing the challenge of the climate and digital transitions through an ambitious public investment programme.

This ambitious investment policy runs in parallel with the implementation of the **Luxembourg Recovery and Resilience Plan** (RRP) established under the European recovery and solidarity effort "NextGenerationEU". The Luxembourg RRP, presented in April 2021, sets out a roadmap to stimulate a sustainable recovery through investments to address digital, climate and social challenges and is thus fully in line with the Government's policy priorities.

As the **general escape clause remains in place for 2022,** all EU Member States are allowed to continue to temporarily deviate from the applicable fiscal rules. Similarly to the general escape clause at the European level, the national clause for exceptional circumstances provided for in Article 6(1) of the amended law of 12 July 2014 on the coordination and governance of public finances will also continue to apply in 2022.

Despite the temporarily suspension of the fiscal rules, **Luxembourg manages to bring the government deficit below 3% of GDP already in 2021 and to achieve a budgetary position close to its medium-term objective (MTO) in 2022**. Public debt is increasing only moderately and remains well below the threshold of 30% of GDP that the Government set itself in its coalition agreement.

Luxembourg **thereby reiterates its strong commitment to sustainable, sound and balanced public finances**, including through maintaining the highest AAA credit rating with all major rating agencies.

2. Macroeconomic forecasts

Overall, **global economic trends** have improved significantly in 2021 after a year marked by a historic crisis. Industrial production and international trade have rebounded, and stimulus programmes in the US and Europe are supporting the economic recovery. Despite these encouraging signs, elements of uncertainty that could impact growth persist.

In 2020, the **Euro area** economies were heavily impacted by the consequences of the health crisis and contracted by 6.8%. Thanks to the ramp-up of vaccination campaigns, the Euro area returned to growth in 2021 and is expected to grow by 4.1% for the year as a whole. Growth is forecast to accelerate in 2022 at an annual rate of 4.8%.

Compared to the Euro area, economic activity in **Luxembourg** held up well in the second half of 2020 and the recession was therefore less marked than in other countries. According to STATEC, Luxembourg reached pre-crisis GDP levels by the end of 2020, leading to an estimated decline of -1.8% for 2020 (according to the latest national accounts figures). Given the normalisation of the economy and the dynamism of international activity, Luxembourg's real GDP is estimated to grow by 6.0% in 2021 and 3.5% in 2022.

As for **inflation**, consumer prices have exceeded a 2% growth rate in recent months due to a continued rise in energy prices. Price pressures are expected to persist, at least in the short term, with the inflation rate (NICP) estimated at 2.2% in 2021. Consumer price inflation is expected to slow down in 2022 and reach 1.7%[1].

The **labour market** is expected to remain buoyant with employment growth at 2.5% in 2021 and a similar rate in 2022. This increase reflects the government support implemented through the extension of the short-time working scheme and testifies to the resilience of the Luxembourg economy. In line with the positive employment performance, the unemployment rate (ADEM definition) is expected to continue its downward trend and should decrease from 6.5% in 2021 to 6.3% in 2022.[2]

On the basis of the European Commission's calculation method applied to the forecasts and macroeconomic data of STATEC[3], **potential growth** for Luxembourg is estimated at 2.8% in 2021 and 3.1% in 2022. The output gap, which represents the difference between real GDP and potential GDP, remains negative due to the impact of the health crisis on the economy and is estimated at -1.4% in 2021 and -1.1% of potential GDP in 2022.

3. Budgetary objectives and policy

Thanks to its consistently prudent management of public finances, **Luxembourg was able to benefit from a very favourable budgetary starting position at the onset of the crisis**. All relevant criteria of the Stability and Growth Pact were met uninterruptedly since the end of the last crisis and the country is one of the few countries with an 'AAA' rating - with a stable outlook - from all the rating agencies, in view of its low level of public debt and sound public finances.

This provided the Government with the necessary flexibility to cushion the cost of the measures taken to contain the pandemic and sustain the recovery. Taken together, the

[1] The estimated inflation rate based on the Harmonised Index of Consumer Prices (HICP) is 3.1% in 2021 and 1.9% in 2022.
[2] Unemployment rates according to the Eurostat harmonised definition are 6.9% in 2021 and 6.7% in 2022.
[3] Taking into account in particular the new figures from the revision of the national accounts over the period 1995-2020: https://statistiques.public.lu/fr/actualites/economie-finances/comptes-finances/2021/09/20210930/index.html .

budgetary allocations made available, including government guarantees to businesses and households, totalled 11 billion euros (18.6% of the then estimated 2020 GDP).

In addition to the socio-economic crisis linked to the COVID-19 pandemic, **the Government also responded decisively to the severe floods** in July 2021 to protect the economy and support those who are most affected. In this respect, a budgetary envelope of €100 million has been released to provide direct and rapid assistance to the victims and to cover the damages caused to public infrastructure and equipment.

Fiscal policy for 2022 will continue to focus fully on strengthening the recovery and is in line with the actions taken in recent years. The main objective of the Government's budget for 2022 is to lay the foundations for a sustainable economic recovery, while meeting the challenges arising from the green and digital transitions. Thus, it is planned to maintain an attractive economic and social environment through an **ambitious investment programme** in the digital, social and environmental fields.

While the **nominal balance of the general government** showed a deficit of 3.5% of GDP in 2020, the situation is significantly improving since 2021, with the balance expected to fall to -0.6% of GDP by the end of the year. In 2022, the general government is set to return to a nearly balanced budget situation at -0.2% of GDP.

This positive development is mainly linked to the recovery in economic activity and the dissipation of the budgetary impact of a vast number of support measures. The negative balance of the general government largely stems from the central government as the effects of the health crisis continue to weigh on the accounts of the latter, which is expected to show a deficit amounting to -2.0% of GDP in 2021 and to -1.7% of GDP in 2022.

Compared to 2020, a year marked by the pandemic, **public revenues** are expected to grow by +10.2% in 2021 and by +4.3% in 2022. The positive trend is directly linked to the recovery of economic activity, which is characterised by the pick-up of consumption at the end of 2020, following the gradual lifting of health restrictions, as well as by the good performance of the labour market, which has proved resilient throughout the crisis.

Following the significant increase in 2020 due to the deployment of support measures in the light of the COVID-19 pandemic, **public expenditure shows** a moderate growth rate in 2021, amounting to around +3.3%. In 2022, public spending should continue to evolve at a comparable rate of +3.4%, given that expenditure directly linked to the crisis (including unemployment benefits) is declining and that the evolution of other public expenditure continues to be controlled.

Public investment will positively evolve in 2021 and 2022 and remain well above 4% of GDP to further support the successful transition to a sustainable and digital economy. The Government's ambitious investment programme is complemented by investments and reforms under the **Luxembourg Recovery and Resilience Plan**.

Public debt is expected to reach 25.8% in 2021, increasing to 26.6% in 2022, mainly due to the central government deficit. Luxembourg thus continues to respect its own ceiling of 30% of GDP despite the COVID-19 crisis. Leaving aside the direct impact of the crisis, public debt would be amounting to 21.5% of GDP in 2021 and reach 22.4% of GDP in 2022.

The central government as a whole holds financial assets totalling an estimated 46% of GDP, of which around 36% of GDP is held in the pension system reserve to which the social security surpluses are allocated. The financial position of the public sector - on a net basis - therefore continues to remain largely positive insofar as financial assets exceed the level of liabilities.

More generally, Luxembourg continues to follow **a prudent approach when estimating its budgetary forecasts, both in terms of public revenue and expenditure**. Given the inevitable uncertainties in any projection exercise, further revisions are possible.

4. Update of the table related to the recommendations adopted in the context of the European Semester 2021

In view of the EU's joint response to the COVID-19 pandemic, the European Semester process has been adjusted in 2021 to accommodate the procedures of the Recovery and Resilience Facility (RRF).

In 2021, the usual country-specific recommendations have been replaced by qualitative fiscal guidance. Table 9 presents the budgetary orientations in light of the recommendations obtained in the context of the 2021 European Semester.

Statistical Annex

1. Macroeconomic forecasts

Table 0. Basic assumptions

	Year 2020	Year 2021	Year 2022
Short-term interest rate (annual average)	-0.4	-0.5	-0.4
Long-term interest rate (annual average)	0.1	0.1	0.5
USD/€ exchange rate (annual average)	1.14	1.20	1.22
Nominal effective exchange rate	1.00	1.00	1.00
Euro area GDP growth	-6.8	4.1	4.8
Growth of relevant foreign markets	-12.7	7.7	10.4
Oil prices (Brent, USD/barrel)	42	69	65

Table 1.a. Macroeconomic prospects

	ESA code	Year 2020	Year 2020	Year 2021	Year 2022
		Level	rate of change	rate of change	rate of change
1. Real GDP (reference year = 2015) (million EUR)	B1*b	59,592	-1.8	6.0	3.5
2. Potential GDP (million EUR)		62,341	2.1	2.8	3.1
3. Nominal GDP (million EUR)	B1*b	64,221	2.4	8.0	4.4
Components of real GDP					
4. Private final consumption expenditure (million EUR)	P.3	18,350	-6.9	8.4	5.2
5. Government final consumption expenditure (million EUR)	P.3	10,655	7.7	2.8	1.3
6. Gross fixed capital formation (million EUR)	P.51	10,589	-3.1	12.3	7.4
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	…	0.0	0.0	0.0
8. Exports of goods and services (million EUR)	P.6	121,084	1.3	9.5	5.7
9. Imports of goods and services (million EUR)	P.7	101,021	1.6	10.8	6.5
Contributions to real GDP growth					
10. Final domestic demand		…	-1.6	5.1	3.1
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	…	-0.1	0.0	0.0
12. External balance of goods and services	B.11	…	-0.1	0.9	0.3

Table 1.b. Price developments

	ESA code	Year 2020	Year 2020	Year 2021	Year 2022
		Level	rate of change	rate of change	rate of change
1. GDP deflator (2005=1)		1.08	4.3	1.8	0.9
2. Private consumption deflator		1.07	0.7	1.9	1.7
3. NICP		106.26	0.8	2.2	1.7
4. HICP		105.93	0.0	3.1	1.9
5. Export price deflator (goods and services)		1.09	0.8	5.6	1.5
6. Import price deflator (goods and services)		1.09	-0.9	6.0	1.1

Table 1.c. Labour market developments

	ESA code	Year 2020	Year 2020	Year 2021	Year 2022
		Level	rate of change	rate of change	rate of change
1. Employment, persons[1] (in 1000 pers.)		472	1.9	2.5	2.5
2a. Unemployment rate[2]		20	6.8	6.9	6.7
2b. Unemployment rate[3]		19	6.4	6.5	6.3
3. Labour productivity, persons[4]		…	-3.6	3.4	1.0
4. Compensation of employees (billion EUR)	D.1	32	2.2	4.9	6.7
5. Compensation per employee (1,000 EUR/year)		68	0.3	2.4	4.3

[1] Occupied population, domestic concept national accounts definition.

[2] Harmonised definition, Eurostat.

[3] ADEM definition.

[4] Real GDP per person employed.

2. Budgetary targets

Table 2.a. General government budgetary targets broken down by subsector

	ESA code	Year 2021	Year 2022
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector[1]			
1. General government	S.13	-0.6	-0.2
2. Central government	S.1311	-2.0	-1.7
3. State government	S.1312	…	…
4. Local government	S.1313	0.2	0.3
5. Social security funds	S.1314	1.1	1.2
6. Interest expenditure	D.41	0.2	0.2
7. Primary balance[2]		-0.4	0.0
8. One-off and other temporary measures[3]		…	…
9. Real GDP growth (%)		6.0	3.5
10. Potential GDP growth (%)		2.8	3.1
11. Output gap (% of potential GDP)		-1.4	-1.1
12. Cyclical budgetary component (% of potential GDP)		-0.7	-0.5
13. Structural balance		0.1	0.31

[1] TR-TE=B.9.

[2] The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).

[3] A plus sign means deficit-reducing one-off measures.

Table 2.b. General government debt developments

	ESA code	Year 2021	Year 2022
		% GDP	% GDP
1. Gross debt[1]		25.8	26.6
2. Change in gross debt ratio		1.1	0.7
Contribution to the gross debt ratio			
3. Financing requirements of the central government administration		2.1	1.8
4. Denominator effect		-1.8	-1.1
5. Others		0.8	0.0
p.m.: Implicit interest rate on debt[2]		0.8	0.6

[1] As defined in amended Regulation 479/2009.

[2] Proxied by interest expenditure divided by the debt level of the previous year.

Table 2.c. Contingent liabilities

	Measures	Date of adoption	Maximum amount (% of GDP)	Estimated take-up [1] (% of GDP)
In response to COVID-19	**State guarantee scheme**	Apr-20	3.9	0.2
	Ducroire Office (further support for exports, including to markets affected by COVID-19)	Apr-20	0.3	0.2
	Sub-total		4	0.4
Other	**State guarantees (not COVID-19 related)**	…	7.5	6.7
	of which to the financial sector[2]	…	5.9	4.3
	Sub-total		13.4	11.0
Total			**17.6**	**11.4**

[1] For guarantees in response to COVID-19, the estimated take-up corresponds to the amount granted until 30.09.2021. For all other state guarantees, the estimated take-up corresponds to the outstanding amount on 31.12.2020.

[2] Including the credit line to the Single Resolution Fund.

3. Expenditure and Revenue Projections under the no-policy change scenario

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

General government (S.13)	ESA code	Year 2021	Year 2022
		% GDP	% GDP
1. Total revenue at unchanged policies	TR	44.5	44.6
Of which:			
1.1. Taxes on production and imports	D.2	12.2	12.5
1.2. Current taxes on income, wealth, etc.	D.5	15.5	15.3
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.2	12.3
1.5. Property income	D.4	1.2	1.1
1.6. Other		3.1	3.2
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		40.2	40.3
2. Total expenditure at unchanged policies	TE	45.1	44.5
Of which:			
2.1. Compensation of employees	D.1	10.5	10.6
2.2. Intermediate consumption	P.2	4.4	4.3
2.3. Social payments	D.621	19.3	19.1
of which: Unemployment benefits		1.3	1.0
2.4. Interest expenditure	D.41	0.2	0.2
2.5. Subsidies	D.3	1.1	1.1
2.6. Gross fixed capital formation	P.51	4.3	4.3
2.7. Capital transfers	D.9	1.4	1.2
2.8. Other		3.8	3.7
3. Financing capacity / requirements		-0.6	0.1

4. Expenditure and Revenue targets

Table 4.a. General government expenditure and revenue targets, broken down by main components

	ESA code	Year 2021	Year 2022
General government (S.13)		% GDP	% GDP
1. Total revenue target	TR	44.5	44.6
Of which:			
1.1. Taxes on production and imports	D.2	12.2	12.5
1.2. Current taxes on income, wealth, etc.	D.5	15.5	15.3
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.2	12.3
1.5. Property income	D.4	1.2	1.1
1.6. Other[1]		3.1	3.2
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[2]		40.2	40.3
2. Total expenditure target	TE[3]	45.1	44.8
Of which:			
2.1. Compensation of employees	D.1	10.5	10.6
2.2. Intermediate consumption	P.2	4.4	4.4
2.3. Social payments	D.62 + D.632	19.3	19.1
of which Unemployment benefits[4]		1.3	1.0
2.4. Interest expenditure	D.41	0.2	0.2
2.5. Subsidies	D.3	1.1	1.1
2.6. Gross fixed capital formation	P.51	4.3	4.4
2.7. Capital transfers	D.9	1.4	1.3
2.8. Other[5]		3.8	3.8
3. Financing capacity / requirements		-0.6	-0.2

[1] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[2] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[3] TR-TE= B.9.

[4] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, SEC2010: D.632) related to unemployment benefits.

[5] D.29+D.4 (other than D.41)+D.5+D.7+P.52+P.53+K.2+D.8.

Table 4.b Amounts to be excluded from the expenditure benchmark

	ESA code	Year 2020	Year 2020	Year 2021	Year 2022
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		88	0.1	0.2	0.2
2. Cyclical unemployment benefit expenditure		1140	1.8	1.3	1.0
3. Effect of discretionary revenue measures		92	0.1	0.1	0.0
4. Revenue increases mandated by law		…	…	…	…

Tableau 4.c General government expenditure by function

4.c.i) General government expenditure on education, healthcare and employment

	2021		2022	
	% GDP	% of general government expenditure	% GDP	% of general government expenditure
Education	4.7	10.3	4.8	10.7
Health	5.7	12.6	5.5	12.4
Employment	1.9	4.3	1.6	3.6

4.c.ii) Classification of the functions of the Government

Functions of the Government	COFOG code	2021	2022
		% GDP	% GDP
1. General public services	1	5.0	5.1
2. Defense	2	0.5	0.5
3. Public order and safety	3	1.2	1.2
4. Economic affairs	4	5.8	5.6
5. Environmental protection	5	1.1	1.0
6. Housing and community amenities	6	0.6	0.6
7. Health	7	5.7	5.5
8. Recreation, culture and religion	8	1.2	1.2
9. Education	9	4.7	4.8
10. Social protection	10	19.3	19.3
11. Total expenditure	TE	45.1	44.8

5. Description of discretionary measures included in the draft budget

Table 5. Discretionary measures taken by Central government

List of measures	Detailed description	Target (Expenditure/Revenue component) ESA code	Accounting principle	Adoption Status	Budgetary impact 2022 in m	Budgetary impact 2022 % GDP
REVENUES						
Package of tax measures with the objective of administrative simplification or which correspond to technical adjustments		D.5	Cash	Draft budget	0	0.0
of which:	Introduction of tax treatment for the new European Individual Retirement Savings Product (EIRSP) under Regulation (EU) 2019/1238	D.5	Cash	Draft budget		
	Extension of the list of tax-favoured purposes for housing savings plans	D.5	Cash	Draft budget		
	Introduction of tax measures that provide administrative simplifications, ad hoc adaptations, and modifications or redesigns	D.5	Cash	Draft budget		
	Extension of the income tax bonus for hiring unemployed persons	D.5	Cash	Draft budget		
TOTAL - Revenues					**0**	**0.0**
EXPENDITURE						
Increase in certain public expenses	- Public transport - Environmental protection - Participation in the operating costs of certain public institutions - Digitalisation - Health care for remand prisoners in the Uerschterhaff prison	P.2	Cash	Draft budget	96	0.1
Various public investments	- State investment in digitisation - Participation in the costs of the construction of basic public facilities - Tourism promotion and environmental protection - Air traffic management	P.51	Cash	Draft budget	60	0.1
Media and public transport subsidies	- Promotion of pluralism in the professional information media - Reorganisation of school transport and the RGTR network	D.3	Cash	Draft budget	25	0.0
State participations	State participation in the CNS	D.62	Cash	Draft budget	20	0.0
Transfers to the private sector, international organisations and associations in the socio-therapeutic sector	- Promotion of research, development and innovation (RDI) in the private sector - Participation in international organisations and institutions - Participation in the costs of associations working in various fields of socio-therapeutic action	D.7	Cash	Draft budget	18	0.0
Miscellaneous transfers	- Participation in digitisation projects (pilot projects in the framework of the "ultra-high-speed" strategy) - Participation in environmental projects - Participation in international NATO projects	D.9	Cash	Draft budget	18	0.0
Total - Expenditure[1]					**238**	**0.3**
TOTAL					**238**	**0.3**

[1] Totals may not add up due to rounding.

6. Divergence from latest Stability Programme

Table 6. Divergence from latest Stability Programme

	ESA code	Year 2020	Year 2021	Year 2022
		% GDP	% GDP	% GDP
Target general government net lending / net borrowing	B.9			
Stability Programme 2021		-4.1	-2.0	-1.3
Draft Budgetary Plan 2022		-3.5	-0.6	-0.2
Difference		0.5	1.4	1.1
General government net lending projection at unchanged policies	B.9			
Stability Programme 2021		-4.1	-1.0	-1.1
Draft Budgetary Plan 2022		-4.1	-0.6	0.1
Difference		0.0	0.4	1.3

7. Methodological aspects

Table 7. Methodological aspects

Estimation technique	Phase of the budgetary procdure for which it has been used	Relevant feature of the model/technique used	Assumptions
Macroeconomic forecasts	For the purpose of the elaboration of the draft budget 2022	STATEC's macroeconometric model ("Modux")	External assumptions admitted for a certain number of variables (f.ex euro area growth, stock market development, etc.), with the help of an external partner.
Output gap calculation	For the purpose of the elaboration of the draft budget 2022	Integration of STATEC's macroeconomic forecasts into the European Commission's model	National accounts for the years before 2021 Application of closure rule by 2026
Budgetary revenue estimation	For the purpose of the elaboration of the draft budget 2022	Use of parametric equations and microeconomic information	Macroeconomic forecasts Microeconomic and historical data
Budgetary expenditure estimation	For the purpose of the elaboration of the draft budget 2022	Bottom-up estimations	Employment, inflation, salary indexation, population and other relevant data by expenditure category
Impact of discretionary measures	For the purpose of the elaboration of the draft budget 2022	Bottom-up estimations	…

8. Table of the RRF impact on programme's projections - GRANTS

Revenue from RRF grants (% of GDP)			
	2020	**2021**	**2022**
RRF GRANTS as included in the revenue projections	*0.000%*	*0.018%*	*0.036%*
Cash disbursements of RRF GRANTS from EU	*0.000%*	*0.018%*	*0.036%*

Expenditure financed by RRF grants (% of GDP)			
	2020	**2021**	**2022**
Compensation of employees D.1	*0.000%*	*0.000%*	*0.000%*
Intermediate consumption P.2	*0.003%*	*0.001%*	*0.015%*
Social payments D.62+D.632	*0.000%*	*0.000%*	*0.000%*
Interest expenditure D.41	*0.000%*	*0.000%*	*0.000%*
Subsidies, payable D.3	*0.000%*	*0.000%*	*0.000%*
Current transfers D.7	*0.000%*	*0.002%*	*0.000%*
TOTAL CURRENT EXPENDITURE	*0.003%*	*0.003%*	*0.015%*
Gross fixed capital formation P.51g	*0.001%*	*0.000%*	*0.002%*
Capital transfers D.9	*0.000%*	*0.000%*	*0.012%*
TOTAL CAPITAL EXPENDITURE	*0.001%*	*0.001%*	*0.014%*

Other costs financed by RRF grants (% of GDP)[1]			
	2020	**2021**	**2022**
Reduction in tax revenue	*0.000%*	*0.000%*	*0.000%*
Other costs with impact on revenue	*0.000%*	*0.000%*	*0.000%*
Financial transactions	*0.000%*	*0.000%*	*0.000%*

[1] This covers costs that are not recorded as expenditure in national accounts

9. Implementation of the country recommendations 2021

Recommandation	Sub-Recommandation	Measures and progress realised
CSR 1	*In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and* *preserve nationally financed investment.*	Fiscal policy in 2022 is fully geared towards qualitative growth and job-creation, while pursuing an ambitious investment policy to meet the dual challenge of the climate and digital transitions. Public investment at the level of general government amounts to 3.2 billion euros (4.4% of GDP) in 2022, which represents an increase of +5.1% relative to 2021. The reforms and investments foreseen in Luxembourg's Recovery and Resilience Plan are implemented in parallel with the above-mentioned investment programme.
CSR 2	*When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.* *At the same time, enhance investment to boost growth potential.*	Despite the fact that the general escape clause has been in effect since 2020, Luxembourg manages to return to a government deficit below 3% of GDP as of 2021. In 2022, the improvement in Luxembourg's public finances continues, with the general government close to balance on a nominal basis and a structural balance close to the medium-term objective (MTO). The multi-annual budgetary planning for the period 2021 to 2025 foresees full compliance with the MTO from 2023 onwards. Throughout the period 2022 to 2025, public investment will continue to increase at an average annual rate of +6.5% and exceeds 4% of GDP at all times.
CSR 3	*Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery.* *Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition.* *Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.*	The quality of public finances is determined not only by its quantitative dimension, but also through qualitative aspects. Thus, the government is continuing its efforts to prioritise spending that can have a positive impact on long-term growth, in line with the objectives set for the dual green and digital transition, as well as for the cohesion of the society. The commitments under the government's climate and environmental policy are set in Luxembourg's Integrated National Energy and Climate Plan (NECP). The expenditure identified in the draft State Budget contributing to the achievement of the objectives of the NECP amounts to 1.9 billion euros in 2022. In the area of taxation, the commitment to fight climate change is reflected in the implementation of the CO_2 tax in 2021, which is increased to €25/tonne from 1 January 2022. Concerning the promotion of social cohesion, social benefits (in cash and in kind) represent some 43% of total public spending in 2022, which corresponds to the average observed during the period 2016 to 2021 and confirms the government's firm and ongoing commitment to social protection.

		Finally, as regards the sustainability of public finances, and in line with the government's efforts in recent years, the various pillars of social security are regularly monitored and the results of the analyses are discussed with social partners and other stakeholders to ensure long-term sustainability and sound strategic management. In this context, the next actuarial review of the General Inspectorate of Social Security (IGSS) on the general pension insurance scheme, including updated financing forecasts, will take place towards the end of 2021. In the same vein, the modernisation of long-term care insurance through the introduction of the 2018 reform ensures that the whole system is monitored to anticipate future changes and guarantee the financial stability of the system.