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**Statement by Mr. Lischinsky and Mr. Corvalan Mendoza on Luxembourg  
(Preliminary)  
Executive Board Meeting  
May 14, 2021**

We thank staff for the reports and Mr. Dresse and Mr. Scholer for their informative Buff statement. Despite the Covid-19 pandemic, the country's decisive policy response to safeguard its population and firms resulted in the smallest increase in public debt in the EU in 2020. The self-imposed debt-to-GDP ceiling of 30 percent was maintained, as well as the country's AAA rating by major rating agencies. The impact of the pandemic was milder thanks to well-calibrated policy responses and the swift adoption of teleworking. The latter can be explained by the relative size of its financial sector in the economy that adapted quickly to the new environment and the low share of contact-intensive sectors.

**We welcome the possibility of a V-shaped recovery** in 2021 to around 4 percent economic growth. As well explained in the Buff statement, this positive performance is buttressed on domestic demand. The economic outlook remains favorable, but as in many parts of the world, still with a high degree of uncertainty, as clearly described in the Risk Assessment Matrix in Table 7.

**We welcome the authorities' commitment to preserve comfortable fiscal buffers.** This anchor permitted the government to act decisively when needed, without compromising fiscal stability and sustainability. These strong buffers could also help minimize negative impacts from future fiscal revenues arising from changes in international taxations schemes. The latter aspects are related to the ongoing revisions in the US tax system and the EU and the OECD's inclusive framework, which could affect multinational enterprise relations with the country. The government's medium-term fiscal plans include additional fiscal measures, along with stepping up public investment in infrastructure and housing.

**We take positive note of the authorities' commitment to continue with the 2017 FSAP recommendations' implementation.** Understanding the relative size of the financial sector in the economy and the status of Luxembourg as a global financial center, it makes perfect sense to maintain the regulation and supervision of the financial system at its highest standard. Banks entered the pandemic on a strong footing, are profitable, maintain high levels of capital and liquidity, and exhibit consistent levels of NPLs, but corporate balance sheet potential impairments and scarring in the labor market could be a drag to the economy in the coming years. Having said that, we encourage close monitoring of these developments going forward.

**We concur with staff's assessment on investment fund sector** growing vulnerabilities. This sector could lead to liquidity strains and spillovers if global conditions were to tighten sharply again. As explained in the report, open-ended investment funds are prone to outflows and procyclical selling of less liquid assets, as experienced in March 2020. However, after the strong response from major central banks, to pump liquidity globally, these liquidity strains dissipated and encouraged the renewed risk-taking behavior that could turn procyclical again. Against this backdrop, we encourage the authorities to continue to engage regulators in jurisdictions where delegated portfolio and risk management are important and to enhance macroprudential-based surveillance.

**On AML/CFT, we take positive note of the authorities' efforts** to align their efforts with international best practices and to go beyond the EU requirements by establishing an open and freely accessible ultimate beneficial owner's registry.

**We take comfort in the strategy to move from preserving jobs to facilitating labor reallocation.** Unemployment inched up during the pandemic and disproportionately affected the contact-intensive sectors. We are encouraged by the country's experience, before the pandemic, in reducing unemployment through well-calibrated and targeted active labor market actions. *We would like to hear more details from staff on the future skills initiative.*

With these comments, we wish the people of Luxembourg every success in their future endeavors in these challenging times.