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May 12, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Luxembourg  
(Preliminary)  
Executive Board Meeting  
May 14, 2021**

1. We thank the staff for the detailed report and Mr. Dresse and Mr. Scholer for the informative Buff. The strong health response along with substantial policy support by the Luxembourg authorities has helped to contain the adverse economic impact due to the pandemic. After significant drop in the first half of 2020, the economic activity revived in the second half following the flattening of infection curve, lifting of containment measures and quick reopening of activities. We commend the authorities for the broad-based, timely and sizable support measures leading to a healthy rebound of the economy.
2. The economy is expected to grow at a sound 4 percent in 2021 after moderate contraction of 1.3 percent in 2020. Service sector which accounts for over 80 percent of the economy is dominated by financial services which constitutes about a third of the economy. With one of the lowest shares of contact-intensive sectors, the economic recovery has been catalyzed by swift adaption to teleworking. The recovery is buttressed by boost in domestic and external demand and continuing accommodative global financial conditions.
3. Strong accumulated fiscal condition has helped the authorities to provide a powerful response to the pandemic. The measures have helped to provide income support, preserve employment in sectors most hit by the pandemic – hospitality, retail and construction, and cash flow support to businesses. The ample fiscal space should be supportive of robust recovery with boost to investment in infrastructure and help Luxembourg in developing a green economy. Fiscal balance is expected to gradually improve from about 3 percent deficit in 2020 to a neutral level in the medium-term.
4. Strong support measures by the authorities shielded the corporates from liquidity and solvency pressures. Withdrawal of support measures could push a certain share of

firms towards illiquidity and turn them insolvent. We encourage the authorities for a targeted approach in calibrating future support measures for businesses. *Could the staff provide an overview of nature of targeted support measures to households and business which can be beneficial in the emerging situation?*

5. We are encouraged that the financial sector remains resilient and the authorities would remain vigilant about the evolving risks and vulnerabilities in the sector. The insolvency risks in the non-financial sector could affect the asset quality of banks. Though the investment fund sector has managed the crisis with sound oversight mechanism and global policy action, a coordinated macro-prudential surveillance of the sector is appropriate. We welcome the steps taken to consolidate the status of Luxembourg as a global financial center with the recent launch of sustainable financing initiative. We also stress the importance of continued monitoring and mitigation of AML/CFT framework.
6. Finally, we encourage the authorities for expeditious implementation of their ambitious vaccination strategy and wish the authorities success in their endeavors.