

SU/21/61

May 18, 2021

**The Acting Chair's Summing Up
Luxembourg—2021 Article IV Consultation
Executive Board Meeting 21/47
May 14, 2021**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' timely and broad-based policy response to the pandemic, which supported households and firms and limited the economic fallout. While the outlook is for a recovery, global uncertainty remains, particularly related to the evolution of the virus in the near term. Directors stressed the importance of maintaining targeted policy support until the recovery is firmly established, addressing rising financial system risks, and focusing structural policies on mitigating scarring while supporting an inclusive recovery.

Directors emphasized that the unwinding of policy support should be state contingent and well calibrated to the economic conditions. As the recovery strengthens, fiscal policy should pivot toward further greening the economy, digitalization, and closing infrastructure gaps. It will be important to preserve buffers to guard against fiscal risks from changing international taxation and reaching CO2 targets. Directors recommended continuing to diversify revenues while reducing the carbon footprint, as well as strengthening public investment management and the procurement framework.

Directors highlighted the importance of continuing to address rising risks in the financial sector, in line with the FSAP recommendations. While the banking sector would remain resilient given its large capital and liquidity buffers, solvency risks could, as in other countries, materialize if state support is withdrawn prematurely or the recovery is delayed. Directors welcomed the intensification of the oversight of the investment fund sector and encouraged further strengthening the macroprudential surveillance and regulation of the sector. Directors stressed the need to continue monitoring high household indebtedness, and to revisit the loan-to-value limits and explore other tools in the legal framework if indebtedness continues to rise. The macroprudential stance may need to be revisited if pressures in credit markets reemerge as the recovery gains ground. Noting welcome steps taken by the authorities, Directors recommended further strengthening the AML/CFT framework.

Directors commended the authorities' efforts to support employment, particularly of the most vulnerable workers. As the recovery strengthens, the focus should shift from preserving jobs to facilitating the reallocation of workers to dynamic sectors, including

through training programs. Directors encouraged further steps to increase housing supply, while improving inclusiveness in the housing market. Deepening the market for sustainable finance will help diversify the financial sector.

It is expected that the next Article IV consultation with Luxembourg will be held on the standard 12-month cycle.