

Luxembourg: Consequences of a general economic downturn due to the COVID-19 pandemic

ESPN Flash Report 2020/24

ROBERT URBÉ – EUROPEAN SOCIAL POLICY NETWORK

MAY 2020

Luxembourg has decided on a general lockdown in response to the COVID-19 pandemic, which will most likely result in an economic downturn and have significant social consequences, including increased poverty and inequalities.



Description

Similarly to most European countries, the Luxembourg Government decided on 12 March on an almost total lockdown in response to the COVID-19 pandemic. Subsequently, it took the decision to declare a state of emergency according to article 32.4 of the Constitution; this will last for three months, giving the government the power to rule through regulations and to amend existing laws without consulting Parliament. The lockdown started with restrictions on travel for the public and reduced economic activity: most shops (except for those selling essential items) as well as restaurants and the like were closed, construction sites were also closed, etc. All schooling and university education was switched to distance learning, and childcare facilities were closed. Social distancing was required, under the slogan “Bleift Doheim!” (Stay at home!).

The government made conditions for reduced working hours (or partial unemployment) more flexible. The state pays workers 80% of their gross wages (but not less than the minimum wage) capped at 250% of the minimum wage per month. As of 18 April, 11,063 companies were working reduced hours, affecting 211,716 workers (47.5% of the total employed workforce) and causing public expenses of €440 million.

On 25 March, the government decided on a vast programme worth €8.8 billion (14% of Gross Domestic Product, GDP) to stabilise the economy, including disbursements of direct aid to businesses, bank guarantees and extended payment periods for taxes and

social security contributions. A Government bond of up to €3 billion was approved to finance this programme. Public debt will still remain below 25% of GDP thereafter.

On 15 April, the Government announced the first stages of a limited return to work, whilst not yet having a comprehensive longer-term exit strategy. Construction sites, hardware stores, and garden centres opened again on 20 April, whilst wearing a mask has become compulsory on public transport and everywhere where a distance of two metres between persons cannot be guaranteed. A gradual return to school has been announced, beginning on 4 May with the final-year classes, other secondary school classes progressively from 11 May and primary schools only from 25 May. Further gradual stages will be decided on after an initial observation phase of three weeks.

On 18 April, the Prime Minister announced in Parliament that further measures would follow in the coming days and weeks to alleviate the consequences of the economic downturn. These will include a further €80 million for “certified emergency compensation”, for small businesses with up to nine employees (€5,000 per case) and between 10 and 20 employees (€12,500 per case).



Outlook and commentary

Working reduced hours keeps workers in employment and at least partially guarantees their purchasing power – partially, because of the weight of the

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

core, irreducible expenses (including the reimbursement of possible loans) that remains broadly unchanged.

Home schooling and the closing of schools and childcare facilities endanger the equality of opportunities gained through many reforms of the whole school and education system in recent years. It will further compound the gap between the most vulnerable and their peers.

Social workers report that the lockdown has led to situations of social distress, including an increase in domestic violence, development of bad habits in the absence of the usual daily structure, alcoholism and other forms of drug abuse.

People from vulnerable groups (women, students, refugees, people in an irregular administrative situation, etc.) all face specific and additional risks in this crisis.

There is therefore a great danger, described by unions and NGOs as well as by experts, that Luxembourg will emerge from this crisis not only with more poor and new poor, but also with greater poverty amongst those who were already poor, thus worsening pre-existing inequalities.

"RECOVid", a group of economists based in Luxembourg, assists the "Task Force for the Coordination of the Public Research Sector in the Context of the COVID-19 pandemic" created by "Research Luxembourg", a joint initiative of the main players in Luxembourg's public research.

A first working note provides a summary of ongoing research as well as estimates of the direct economic impact of the health crisis and resulting policy measures. Some of their main messages include the following:

- The current lockdown could reduce Luxembourg's monthly output by 28 to 42%.

- In addition, the effect on well-being goes well beyond the monetary impact of the crisis.

- To allow the economy to recover, assuming a two-month lockdown, the Luxembourg Government would need to inject 3.9 to 5.9% of its GDP into the economy.

- Since many countries, unlike Luxembourg, will not be able to cope alone and will need fiscal support, the risk of a systemic collapse of the financial system both globally and at the EU level cannot be excluded.

- From a longer term perspective, the COVID-19 crisis may have long-lasting effects – it may slow down capital accumulation, induce long-term changes in political preferences, affect international links and cooperation, lead to a collapse of the neo-liberal model of globalisation, and require increased development assistance.

Foundation Idea, a Luxembourg think tank, has published various articles on the consequences of the crisis, exit strategies and recovery scenarios, as well as results of a survey carried out with a panel of more than 100 economic and political decision-makers, 49 of whom participated (see under "Further reading").

Experts expect that the Luxembourg economy will shrink in 2020 by 3-6% of GDP. Some economists are expecting a V-shaped recovery in late 2020 and early 2021, but it is still too early for such predictions.

In designing the exit strategies and related recovery policies, it will be important to ensure that public finance issues are not tackled at

the expense of the most vulnerable - as was the case during the 2008/2010 economic and financial crisis.

Further reading

Grand-Duché de Luxembourg (2020):

- *Arrêté ministériel du 16 mars 2020 portant sur diverses mesures relatives à la lutte contre la propagation du virus covid-19*, Journal officiel du Grand-Duché de Luxembourg (JOGDL) Mémorial A 149 du 16 mars 2020, Luxembourg.

- *Règlement grand-ducal du 18 mars 2020 portant introduction d'une série de mesures dans le cadre de la lutte contre le Covid-19*, JOGDL Mémorial A 165 du 18 mars 2020, Luxembourg.

- *Loi du 24 mars 2020 portant prorogation de l'état de crise déclaré par le règlement grand-ducal du 18 mars 2020 portant introduction d'une série de mesures dans le cadre de la lutte contre le Covid-19*, JOGDL Mémorial A 178 du 24 mars 2020, Luxembourg.

Research Luxembourg (2020), *Economic effects of Covid-19 in Luxembourg*. First RECOVid working note with preliminary estimates:

https://www.liser.lu/documents/RECOVID/RECOVID_working-note_full-1.pdf

Foundation Idea website:

<https://www.fondation-idea.lu/>

Government website:

<https://coronavirus.gouvernement.lu/en.html>

Ministry for Economy website:

<https://meco.gouvernement.lu/fr.html>

Author

[Robert Urbé](#) (independent social policy researcher, Luxembourg)

The Flash Reports are produced by the European Social Policy Network (ESPN) established in 2014 to provide the European Commission with independent information, analysis and expertise on social policies in 35 European countries. The topics covered are identified by ESPN experts in the light of significant developments in their countries, or in some cases suggested by the Commission or the Flash Reports' editorial team (Eric Marlier and Slavina Spasova). The ESPN is managed by LISER (Luxembourg Institute of Socio-Economic Research), APPLICA and the OSE (European Social Observatory). More information on the ESPN: <http://ec.europa.eu/social/main.jsp?catId=1135&langId=en>.

Quoting this report: Urbé, Robert (2020). *Luxembourg: Consequences of a general economic downturn due to the COVID-19 pandemic*, ESPN Flash Report 2020/24, European Social Policy Network (ESPN), Brussels: European Commission.