

## CORONAVIRUS: INITIATIVES TO SUPPORT THE LUXEMBOURG ECONOMY

The Luxembourg Government announced an economic stabilisation programme to support the economy in light of the Covid-19 pandemic. This briefing summarises the main financial measures taken so far.

### CAPITAL GRANT ADVANCE

Based on the law of 3 April 2020, the Luxembourg State grants financial aid in the form of a repayable advance to cover documented loss of income due to the Covid-19 pandemic.

All companies holding a valid business permit are eligible (SMEs and large enterprises), provided that certain conditions are fulfilled. Such loans may only be granted to entities holding a business license and whose financial difficulties are solely related to the Covid-19 pandemic.

The advance may be used to pay admissible costs such as salaries and social security, as well as rent (up to an amount of EUR 10,000 per month) during the period of crisis. The aid can cover up to 50% of the eligible costs up to a maximum amount of EUR 500,000 per corporate group (*entreprise unique*, as defined in the law).

For further details, please see our briefing on [regime governing aides to businesses encountering temporary financial difficulties](#).

### NON-REFUNDABLE FINANCIAL AID

Businesses with 9 employees at the most with a valid business permit issued before 18 March 2020 (with an annual turnover of at least EUR 15,000 and whose activity had to be interrupted following the entry into force of the Grand Ducal Regulation of 18 March 2020 introducing a series of measures in the fight against Covid-19) can apply for an immediate and non-refundable financial aid of EUR 5,000.

On 24 April 2020, two new Grand Ducal Regulations entered into force which make available a second aid of EUR 5,000 for businesses with up to 9 employees and a new aid of EUR 12,500 for those with up to 20 employees. These new measures may be combined with the previous non-refundable financial aid provided that the concerned company remains closed after 24 April or shows a 50% fall in turnover.

#### Key aspects

- Repayable loan up to EUR 500,000 for all companies
- State-backed guarantee scheme for new bank loans
- Moratorium on loan repayments
- Non-repayable grant for micro and small enterprises
- Relaxation of payment conditions by the SNCI
- Special Anti-Crisis Financing for indirect loans by the SNCI
- Encouraging research and investment aimed at fighting Covid-19
- Bank guarantee for companies with cash-flow difficulties
- Reinforcement of export and international development aid measures (ODL)

*This briefing speaks as of 28 April 2020.*

## **STATE-BACKED GUARANTEE SCHEME FOR NEW BANK LOANS**

New credit facilities will be guaranteed at 85% by the Luxembourg State and 15% by the banks for loans granted from 18 March 2020 to 31 December 2020. The maximum amount of this measure is capped at EUR 2,5 bn and each loan will be capped at an amount of 25% of the concerned company's turnover in 2019 and a guarantee fee will be payable by the borrowers, depending on the size of the company and the duration of the loan.

These new credit facilities may only be granted to companies that were viable before 18 March 2020 (i.e. declaration the state of crisis). To date, seven local banks have signed an agreement with the state Treasury allowing them to offer loans guaranteed by the state to their professional customers.

For further details, please see our briefing on [Luxembourg State-backed guarantee scheme for new bank loans](#).

## **MORATORIUM ON LOAN REPAYMENTS OFFERED BY CERTAIN BANKS**

Six of Luxembourg's most important banks (Banque et Caisse d'Epargne de l'Etat, BGL BNP Paribas, Banque Internationale à Luxembourg, Banque de Luxembourg, Raiffeisen and ING Luxembourg) have voluntarily agreed on a moratorium on loan repayments covering principal as well as interest to help businesses cope with cash flow issues.

## **STATE INVESTMENT BANK (SNCI) MEASURES**

The SNCI has announced two measures.

### **Relaxation of payment conditions**

The SNCI has announced the relaxation of repayment conditions for existing loans granted by it, suspending principal repayments for direct and indirect loans at 31 March and 30 June maturities. The duration of all these financings will be automatically extended by 6 months.

### **Special Anti-Crisis Financing**

The SNCI will also provide a "Special Anti-Crisis Financing" to cover the financing needs through indirect loans, ranging between EUR 12,500 and 10M, for financing decisions granted until 31 December 2020. It will take the form of an indirect funding provided through the applicant company's house bank. The SNCI will finance up to 60% of the financing requirement (up to a maximum of EUR 10M) on condition that the company's house bank finances 40% thereof. This measure is capped at EUR 400M, resulting in a global loan envelope of EUR 700M.

## **ENCOURAGING RESEARCH AND INVESTMENT AIMED AT FIGHTING COVID-19**

Any business holding a valid business license (*autorisation d'établissement*) carrying out research or making investments for products helping to combat the Covid-19 pandemic can apply for a subsidy.

### Eligible R&D Investments

Research projects may relate to R&D on vaccines, on medication and treatments, on medical devices and hospital and medical equipment, including respirators and protective clothing and equipment and diagnostic tools. An industrial research or experimental development project may be supported up to 80% of eligible costs, for fundamental research projects up to 100% of eligible costs can be covered. In the case of cross-border collaboration with another company or another research body, the aid may be increased by 15%

### Eligible Investments for producing goods relevant to combating Covid-19

A business that makes an investment into the production of Covid-19 related products is entitled to an aid of up to 80% of the admissible costs. It may be increased by 15 % if the investment is completed within 2 months of the aid being granted or if another member State grants aid for the same admissible costs.

In the framework of this support measure, the company may also apply for a coverage of up to 30% of its losses. This cover may not exceed EUR 500,000 in respect of a production maintained over at least 5 years and is reduced pro rata if the production is stopped earlier.

### BANK GUARANTEE FOR COMPANIES WITH CASH-FLOW DIFFICULTIES

The Chamber of Commerce, via its *Mutualité de Cautionnement*, has set up a specific guarantee to support companies (other than artisanal and agricultural businesses) which encounter financial difficulties and especially liquidity problems.

This guarantee will cover up to 50% of the credit with a maximum amount of EUR 250,000 per guarantee.

In order to guarantee rapid assistance to companies that request it, a procedure for analyzing files within 48 hours has been set up. Companies must apply directly to their bank, which will decide whether or not to grant the loan.

The Chamber of Commerce intends to act in a pragmatic, rapid and effective manner to provide support to the country's businesses, and is in contact with the banks to organise the provision of this new service.

### REINFORCEMENT OF EXPORT AND INTERNATIONAL DEVELOPMENT AID MEASURES (ODL)

The Luxembourg Export Credit Agency, *Office du Ducroire* ("ODL") has introduced the following support measures to help Luxembourg exporting companies:

- increase of the percentage of cover of limits and contracts issued during the state of crisis in the context of export insurance;
- collaboration with the *Mutualité de Cautionnement* with the establishment of insurance for guarantees issued by the *Mutualité*, allowing them to increase their loan capacity;
- flexibilisation of the "Bank loans insurance" which allows banks to partially reduce the risk of non-repayment of the loans they grant to Luxembourg

exporters for the development of their international activities. In this context, ODL will also soften the conditions applicable to this product, in particular by increasing the percentage of insurance and by broadening the definition of eligible bank loans;

- increase of the percentage of the insurance product for bank guarantees which is aimed at banks of Luxembourg exporters to ensure the guarantee line granted by the bank and inclusion of import guarantees in the field of insurance application;
- reduction of the claim period which will allow companies to be compensated more quickly in the event of a claim; and
- reduction of the reimbursement delay for invoices paid in the context of financial support.

On 18 April 2020, bill n°7563 was submitted to the Luxembourg Parliament in order to increase the thresholds of the commitments that may be made by the Luxembourg Export Credit Agency (ODL) on behalf of the Luxembourg state.

The ODL is currently only allowed, per activity, to take on commitments on behalf of the State up to an amount equating (i) 20 times the amount of its own funds allocated to this activity or (ii) 20% of the total amount of the ODL's own commitments assumed under the State's guarantee. The bill sets up a new derogation to these limitations and proposes to allow the ODL to take on, per activity, commitments on behalf of the state of up to 50 times its own funds allocated to this activity.

## **ADVANCES AND FAST-TRACK PROCEDURE UNDER SHORT-TIME WORK SCHEME**

The Luxembourg labour code provides for various types of short-time work under certain conditions and depending on the nature of the difficulties encountered. These rules now apply to all the sectors of the economy provided that the causes invoked are directly related to the Covid-19 pandemic. This measure aims at avoiding redundancies by having the Luxembourg State pay 80% of salaries as compensation in short-time work schemes.

Whilst under normal circumstances, the concerned company will be required to pay the full salary and be entitled to a subsequent repayment by the authorities, it has been decided that during the Covid-19 pandemic, the Luxembourg State will advance the payment to the concerned companies, in order to ensure that the measure further eases the liquidity constraints faced by the companies.

Finally, short-time work requests will be dealt with under a new accelerated procedure.

## **TAX MEASURES**

In light of the severe liquidity issues faced by many tax payers, the tax authorities have also announced different relaxations of the deadlines within which taxes and tax advances need to be paid. These are described in further detail in our latest [tax briefing](#).

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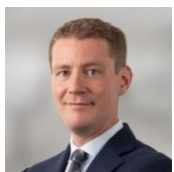
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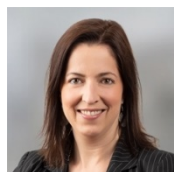
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