

Luxembourg introduces state guarantee scheme for new bank loans for a maximum period of 6 years

Insights - 11/05/2020

As part of the economic stabilization program, the Luxembourg state will guarantee bank loans granted to businesses up to 2.5 billion euros, which is introduced by the law of 18 April 2020 setting up a guarantee scheme for the Luxembourg economy in the context of the Covid-19 pandemic (the Law). The Law has been published on 18 April 2020 and is immediately applicable.

Companies of all sectors, except holding and real estate companies will now be able to apply to bank loans lent by Luxembourg credit institutions for a loan of up to 25 % of their turnover, with a state guarantee of up to 85 %.

The Law provides for issuance of state guarantees to credit lines, investment loans and cash credit granted by credit institutions between 18 March 2020 until 31 December 2020 for companies being in temporary financial difficulties (distress) following the COVID 19 pandemic.

Eligible entities under the Law are commercial, artisanal (craftsmanship) or industrial companies having a business licence as well as liberal professionals. Excluded from the scope of the Law are companies who were already in difficulties before 1 January 2020, companies whose principal activity is the promotion, holding, renting or trading of real estate, as well as companies whose principal activity is holding participations in other companies.

The guarantee scheme will back loans with a maximum term of six years and the maximum amount of the principal loan amount cannot exceed 25 % of the turn over realised by the applicant in 2019 (or of the last financial year available). In order to counter any misrepresentations, the loan agreement will sanction any event of non-respect of the eligible criteria of the guarantee scheme and notably any misleading information intentionally procured by the applicant with an immediate reimbursement of the loan amount..

The Law also foresees a specific relief measure for start-up companies (*jeune entreprise*)

innovantes) taking into account the employment costs of the last financial year or a projection, for start-ups set up after 31 December 2019.

With respect to the application process, the participating credit institutions are in charge of notifying the State Treasury after having being contacted by an applicant. Once the credit institution has reviewed the eligibility of the state guarantee, it will notify the State Treasury via a single device system. The credit institutions referred to under the Law are BCEE, BIL, Banque de Luxembourg, Banque Raiffeisen, BGL BNP Paribas, ING and Bank of China.

The Law also provides for the remuneration of guarantee ranging from 25 basis points for a maturity date of 1 year for small and medium size companies up to 200 basis points for a maturity of six years, for large companies.

The guarantee scheme may not be cumulated for the same loan with other State guarantees.

In case the applicant has received the guarantee scheme in breach with the dispositions of the Law, he will need to reimburse immediately the loans within three months, including the accrued legal interest as from the moment of the granting of the loan. This Law also provides for a criminal penalty in case the applicant has received any advantages under the Law based on providing knowingly inexact and incomplete information.

About Ogier

Ogier is a professional services firm with the knowledge and expertise to handle the most demanding and complex transactions and provide expert, efficient and cost-effective services to all our clients. We regularly win awards for the quality of our client service, our work and our people.

Disclaimer

This client briefing has been prepared for clients and professional associates of Ogier. The information and expressions of opinion which it contains are not intended to be a comprehensive study or to provide legal advice and should not be treated as a substitute for specific advice concerning individual situations.

Regulatory information can be found under [Legal Notice](#)

Meet the Author



Bertrand Gérardin

Partner

Luxembourg Legal Services

E: bertrand.geradin@ogier.com

T: [+352 2712 2029](tel:+35227122029)

Key Contacts



Sarah Verlende

Managing Associate

Luxembourg Legal Services

E: sarah.verlende@ogier.com

T: [+352 2712 2074](tel:+35227122074)

Related Services

Corporate

Legal