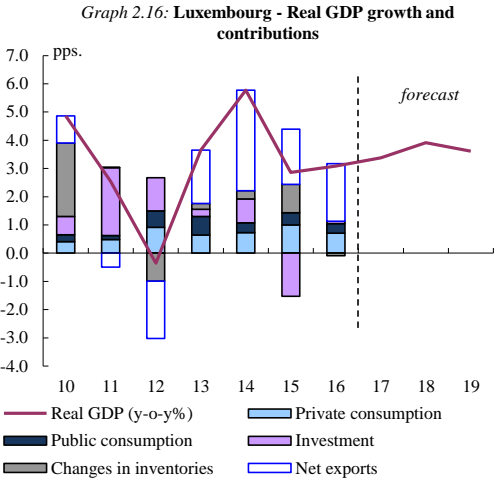


2.16. LUXEMBOURG: STRONG, BROAD-BASED GROWTH

Economic growth is projected to pick up in 2018, before easing slightly in 2019. Luxembourg’s GDP growth is estimated to have reached 3.4% in 2017, up from 3.1% in 2016. After a weak performance in the first quarter of last year, economic activity gained momentum in the second and third quarters. The latest indicators suggest that this trend likely continued in the final quarter of the year.

Private consumption is projected to continue growing moderately in 2018, mainly supported by stronger employment creation among residents and some income gains from the wage indexation expected in the first half of 2018. However, household high indebtedness and increasing debt burdens, might be affecting consumption growth. Construction investment is set to continue growing strongly, sustained by steady growing private building and large public infrastructure projects. The external sector is expected to remain solid, supported by an improved external environment, especially in the euro area. Overall, GDP is forecast to grow by 3.9% in 2018.



In 2019, consumption growth is expected to ease slightly, with employment creation moderating and higher underlying inflation taking a dent on income gains from the wage indexation. The external sector, led by financial services exports, is expected to remain robust, even if receding, in line with financial market prospects.

Headline HICP inflation reached 2.1% in 2017 and is forecast to ease to 1.9% in 2018 and 1.6% in 2019. Higher oil prices are assumed to feed into higher headline inflation in 2018, whereas subsidies in child and healthcare services care introduced in November 2017 will offset upward energy pressures. In 2019, second round effects from higher energy prices and past wage increases are set to lead to a recovery in core inflation.