

## LUXEMBOURG

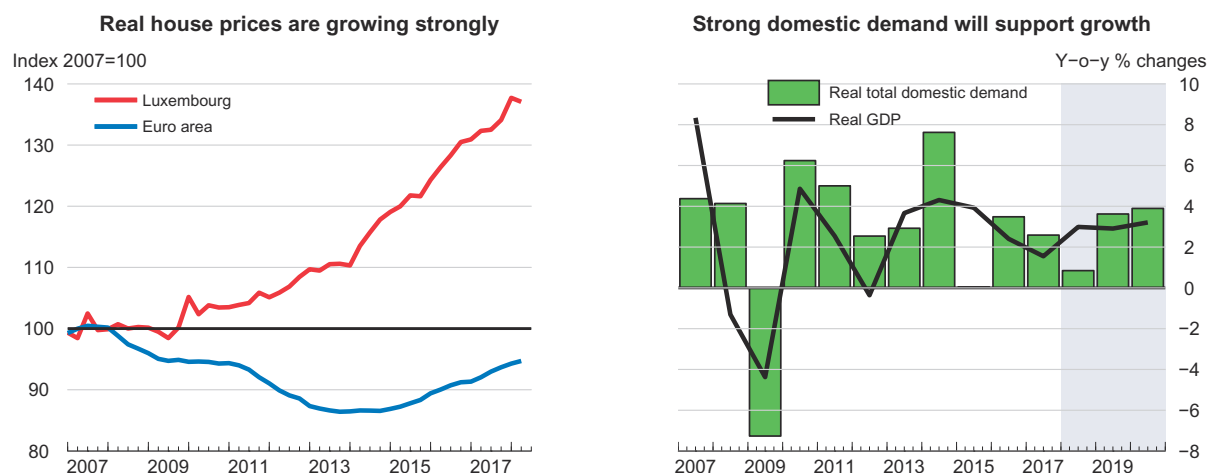
**Growth is strong and projected to stay robust in 2019 and 2020. Domestic demand will support economic activity, with private consumption boosted by a buoyant labour market and lasting effects of tax reform. Growth momentum in the euro area will support solid exports of financial and non-financial services. Continued job creation will primarily benefit cross-border workers, but also help to reduce the unemployment rate to just above 5%.**

**Fiscal policy is sound and could be used to enhance green growth through higher transport fuel taxes. Reliance on the financial sector exposes Luxembourg to increased financial volatility transmitted by international investment funds, which warrants ongoing monitoring of such institutions and the continued diversification of the economy. Constraints on the supply of housing need to be addressed, as house prices continue to increase and household indebtedness is high.**


### ***Resilient domestic demand is supporting growth***

Robust household consumption continues to support economic growth. Exports of financial services compensate for deficits in goods and non-financial services. Declining unemployment, a high vacancy rate, capacity constraints regarding skilled labour and lasting skill mismatches all indicate a tight labour market. Luxembourg's position as a global financial hub translates into growing assets under the management of investment funds, driven by a search for yield and positive valuation effects. The contribution to growth of the financial sector is set to be positive in 2018, but risks need to be closely monitored in a context of a tightening of financing conditions and possible disruptions from the emergence of non-traditional financial technology, such as mobile banking, lending-based crowdfunding platforms and cryptocurrencies.

### **Luxembourg**



Source: OECD Analytical House Price database; and OECD Economic Outlook 104 database.

StatLink  <http://dx.doi.org/10.1787/888933877031>


Luxembourg: **Demand, output and prices**

|   | 2015                          | 2016  | 2017 | 2018 | 2019 | 2020 |
|---|-------------------------------|---|------|------|------|------|
|   | Current prices<br>EUR billion | Percentage changes, volume<br>(2010 prices) |      |      |      |      |
| <b>GDP at market prices</b>                               | 51.6                          | 2.4   | 1.6  | 3.0  | 2.9  | 3.2  |
| Private consumption                                       | 15.9                          | 1.7   | 3.0  | 3.8  | 3.5  | 3.9  |
| Government consumption                                    | 8.7                           | 2.6   | 3.4  | 3.3  | 3.3  | 3.2  |
| Gross fixed capital formation                             | 9.4                           | 10.0  | 4.1  | -6.4 | 5.1  | 4.7  |
| Final domestic demand                                     | 33.9                          | 4.2   | 3.4  | 0.8  | 3.8  | 3.9  |
| Stockbuilding <sup>1</sup>                                | 0.5                           | -0.4  | -0.5 | 0.1  | -0.1 | 0.0  |
| Total domestic demand                                     | 34.4                          | 3.5   | 2.6  | 0.8  | 3.6  | 3.9  |
| Exports of goods and services                             | 115.9                         | 3.8   | -1.9 | 5.9  | 4.4  | 4.5  |
| Imports of goods and services                             | 98.7                          | 4.5   | -2.2 | 5.7  | 4.7  | 4.9  |
| Net exports <sup>1</sup>                                  | 17.2                          | 0.1   | -0.1 | 2.3  | 0.9  | 0.6  |
| <i>Memorandum items</i>                                   |                               |   |      |      |      |      |
| GDP deflator  | —                             | 1.0   | 2.1  | 2.7  | 1.7  | 2.1  |
| Harmonised index of consumer prices                       | —                             | 0.0   | 2.1  | 2.0  | 2.1  | 2.1  |
| Harmonised index of core inflation <sup>2</sup>           | —                             | 1.0   | 1.4  | 0.8  | 1.5  | 2.1  |
| Unemployment rate (% of labour force)                     | —                             | 6.3   | 5.9  | 5.5  | 5.2  | 5.0  |
| Household saving ratio, net (% of disposable income)      | —                             | 14.9  | 14.9 | 14.4 | 14.0 | 13.4 |
| General government financial balance (% of GDP)           | —                             | 1.6   | 1.4  | 1.8  | 1.9  | 2.1  |
| General government gross debt (% of GDP)                  | —                             | 27.3  | 28.9 | 29.9 | 30.2 | 30.6 |
| General government debt, Maastricht definition (% of GDP) | —                             | 20.7  | 23.0 | 24.0 | 24.3 | 24.7 |
| Current account balance (% of GDP)                        | —                             | 5.1   | 4.9  | 5.2  | 4.1  | 4.1  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 104 database.

StatLink  <http://dx.doi.org/10.1787/888933877962>

**Structural reforms should promote green growth and improve housing supply**

Gross public debt, at 24% of GDP, is among the lowest in the OECD. Indeed, net public debt is positive due to significant assets held by the social security administration. The general government budget is in surplus and projected to stay so in the short run, in spite of falling revenues due to the corporate income tax cuts and a loss of e-commerce VAT in 2019. Fiscal policy can improve green growth through higher taxes and excise duties on transport fuel, possibly combined with congestion charges in Luxembourg City. Further structural challenges facing fiscal policy include work disincentives embedded in the tax-benefit system, which are an obstacle to further reduction in unemployment and inactivity traps. Moreover, in the long run, ageing and continued resident inflows may put pressure on the pension system, which is currently in surplus.

Supply constraints in the housing sector have translated into rising real estate prices, eroding housing affordability. Immigration has bolstered demand. However, the supply of housing remains constrained by subdued residential real estate construction. Introducing time-limited building permits and increasing taxation of non-used constructible land would help to address the limited availability of building land by strengthening incentives for owners and developers to use the land available for construction.

**Growth is projected to stay robust**

Growth is projected to remain steady on the back of resilient domestic and external demand, at 2.9% in 2019 and 3.2% in 2020. Reductions in personal and corporate income taxes will continue to help stimulate domestic demand in the coming two years. Global trade tensions as well as heightened financial volatility represent the main downside risks to the medium-term outlook and could weigh on external demand. On the upside, financial companies have announced the reallocation of some of their activities in Luxembourg after Brexit, which might be the sign that its established financial sector may become even more attractive.