

## Luxembourg (Grand Duchy of)

This annex refers to the release of monitoring note of 25 June 2021

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard<sup>1</sup>

<b>Implied rating of core variable scorecard (CVS)</b>		<b>aaa</b>
<b>Reserve currency adjustment</b>		<b>1</b>
<b>Weight</b>	<b>Qualitative scorecard (QS) for long-term local currency ratings</b>	
20%	Growth potential of the economy	Strong
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Weak
20%	Fiscal policy framework	Neutral
	Debt sustainability	Strong
	Debt profile and market access	Neutral
20%	Current account resilience	Neutral
	External debt structure	Neutral
	Resilience to short-term shocks	Weak
20%	Banking sector performance	Neutral
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Neutral
	Social risks	Neutral
	Institutional and political risks	Neutral
<b>QS adjustment (notches)</b>		<b>0</b>
<b>Additional considerations (notches)</b>		<b>0</b>
<b>Final rating</b>		<b>AAA STA</b>

## Annex II: Selected indicators

Source: Macrobond, IMF, Central Bank of Luxembourg, Scope Ratings GmbH

	2017	2018	2019	2020	2021F	2022F
<b>GDP per capita (USD)</b>	108,622	117,860	115,839	116,921	131,782	139,126
<b>Real GDP (SA), % change</b>	1.8	3.1	2.3	-1.3	4.1	3.6
<b>Unemployment rate, %</b>	2.8	2.4	2.4	2.8	2.8	2.4
<b>CPI, % change</b>	2.1	2.0	1.7	0.0	0.9	1.8
<b>Policy rate, %, EOP*</b>	-0.4	-0.4	-0.5	-0.5	-	-
<b>Fiscal balance, % of GDP</b>	1.3	3.1	2.4	-3.8	-1.5	-0.5
<b>Government debt, % of GDP, EOP</b>	22.3	21.0	22.0	24.9	26.2	26.7
<b>Current account balance, % of GDP</b>	4.9	4.8	4.6	4.4	4.9	4.9

## Annex III: Economic development and default indicators

IMF Development Classification<sup>2</sup>

AE

5y USD CDS spread (bps) as of 21 June 2021

N/A

<sup>1</sup> The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on [www.scooperatings.com](http://www.scooperatings.com)

<sup>2</sup> AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Luxembourg	June 2021	Assessment	Analytical rationale
Peers*	Austria, Germany, Norway, Netherlands, Switzerland		
	Growth potential	Strong	High growth potential, supported by sound economic policies and high value-added sectors
	Monetary policy framework	Neutral	ECB is a highly credible and effective central bank; appropriate monetary policy response to the Covid crisis
	Macro-economic stability & sustainability	Weak	Economic structure subject to volatility; exposed to changes in global tax policies
Public finance risk	Fiscal policy framework	Neutral	Effective fiscal policy frameworks with track record of conservative budgetary management
	Debt sustainability	Strong	Low debt levels and robust debt dynamics over the forecast horizon
	Debt profile & market access	Neutral	Favorable debt profile with a low interest payment burden
External economic risk	Current account resilience	Neutral	Strong current account surpluses; reliance on financial service exports
	External debt structure	Neutral	High external debt levels offset by external assets with a net international creditor position
	Resilience to short-term shocks	Weak	Benefits from euro-area membership; high exposure to external developments given very small, open economy and strong integration with international markets
Financial stability risk	Banking sector performance	Neutral	Efficient banking sector with large capital buffers and strong asset quality but some profitability pressures
	Banking sector oversight	Neutral	Efficient, credible oversight frameworks under the Central Bank of Luxembourg and the ECB
	Financial imbalances	Weak	Gradually increasing imbalances in the housing sector due to supply constraints; high private debt levels
ESG risks	Environmental risks	Neutral	High emissions and reliance on natural resource imports balanced by the government's ambitious climate efforts
	Social risks	Neutral	Inequality, poverty and educational outcomes are deteriorating; social outcomes remain good overall; relatively favourable demographics
	Institutional and political risks	Neutral	Strong democratic institutions and stable political landscape

\* Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.