

Luxembourg (Grand Duchy of)

This annex refers to the release of monitoring note of 15 January 2021

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		aaa
Reserve currency adjustment		1
Weight	Qualitative scorecard (QS) for long-term local currency ratings	
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	Neutral
20%	Banking sector performance	Neutral
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Neutral
	Social risks	Neutral
	Institutional and political risks	Neutral
QS adjustment (notches)		0
Additional considerations (notches)		0
Final rating		AAA STA

Annex II: Selected indicators

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

	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD, '000s)	108.6	117.9	115.8	109.6	125.9	131.7
Real GDP, % change	1.8	3.1	2.3	-5.8	5.9	3.8
CPI, % change	2.1	2.0	1.7	0.4	1.4	1.8
General government balance, % of GDP	1.3	3.1	2.1	-7.0	-1.7	-1.2
General government debt, % of GDP	22.3	21.0	22.1	26.9	27.5	28.3
Current account balance, % of GDP	4.9	4.8	4.5	3.8	4.3	4.4
Gross external debt, % of GDP	6302.6	5936.0	5363.7	-	-	-

Annex III: Economic development and default indicators

IMF Development Classification ²	AE
5y USD CDS spread (bps) as of 13 January 2021	N/A

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com

² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

	January 2021	Assessment	Analytical rationale
Peers*	Austria, Germany, Norway, Netherlands, Switzerland		
Domestic economic risk	Growth potential	Strong	High growth potential, supported by sound economic policies and robust labour markets.
	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 fiscal policies.
	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	Neutral	Benefits from euro-area membership; small, open economy highly integrated 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 but social outcomes remain good overall.
	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.