

Grand Duchy of Luxembourg

Rating Report



Credit strengths

- Wealthy economy with solid fundamentals
- Sound public finances and robust fiscal framework
- Strong external position
- Very strong institutions and political stability

Credit challenges

- Exposure to developments in global taxation and financial markets
- Rising vulnerabilities in the real estate sector
- Long-term fiscal pressure from an ageing population

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Rating rationale:

Wealthy economy with solid fundamentals: Luxembourg benefits from its high wealth levels and competitive economy, supported by strong labour productivity and high value-added sectors such as financial services and information and communication technology. These factors, combined with forceful policy support, contribute to Luxembourg's economic resilience as demonstrated throughout recent crises and its robust medium-term growth outlook.

Sound public finances and ample fiscal buffers: Luxembourg's public finances benefit from very low public debt and substantial fiscal space, providing ample buffers to face future shocks driven by consistent fiscal surpluses. Comprehensive fiscal support resulted in a mild weakening of the budget balance and the near-to-medium term fiscal outlook.

Strong external position: Euro area membership, consistent current account surpluses and large external creditor position mitigate risks linked to Luxembourg's small, open economy and volatile net international position.

Rating challenges include: i) a small, open economy that is exposed to developments in global taxation frameworks and international financial markets; ii) rising financial vulnerabilities linked to the evolution of the real estate sector and elevated private debt levels amid monetary tightening; and iii) long-term fiscal pressures linked to population ageing and generous social security systems.

Luxembourg's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aa-	EUR [+1]	0	AAA	
Public Finance Risk	20%	aa+		0		
External Economic Risk	10%	aa+		0		
Financial Stability Risk	10%	aaa		-1/3		
ESG Risk	Environmental Factors	5%		bbb+		0
	Social Factors	7.5%		a		0
	Governance Factors	12.5%		aaa		0
Indicative outcome				aaa	0	
Additional considerations					0	

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- N/A

Negative rating-change drivers

- Growth outlook deteriorates substantially
- Fiscal fundamentals weaken significantly
- Vulnerabilities in the financial system threaten macro-economic stability

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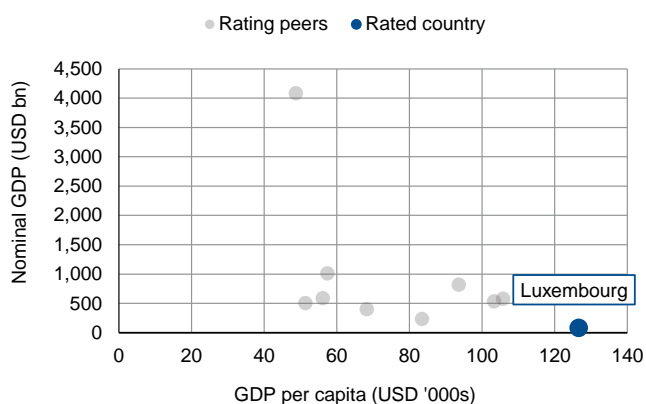
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Luxembourg's *Domestic Economic Risk*

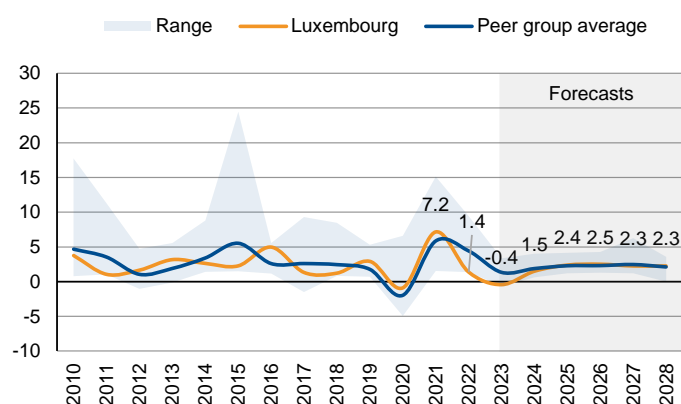
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential of the economy	Strong	+1/3	High growth potential, supported by sound economic policies and high value-added sectors
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macro-economic stability and sustainability	Weak	-1/3	Small, open economy that is subject to volatility; exposed to changes in global tax environment

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



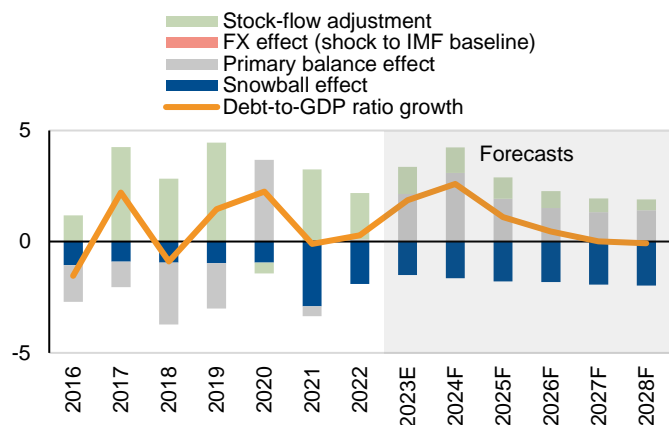
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Luxembourg's *Public Finance Risk*

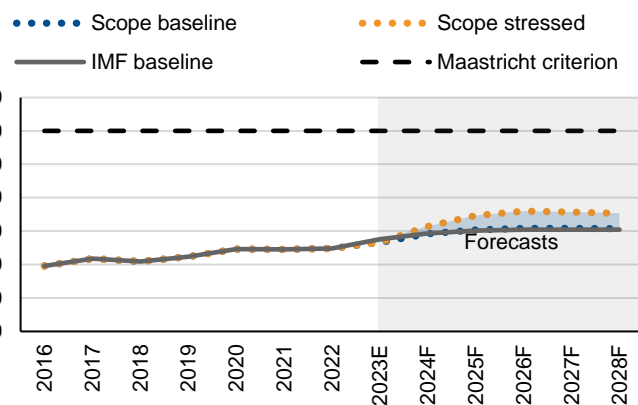
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Effective fiscal policy framework with track record of conservative budgetary management
	Debt sustainability	Neutral	0	Very low debt levels; moderately rising debt trajectory over the forecast horizon
	Debt profile and market access	Neutral	0	Favourable debt profile with a low interest payment burden

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



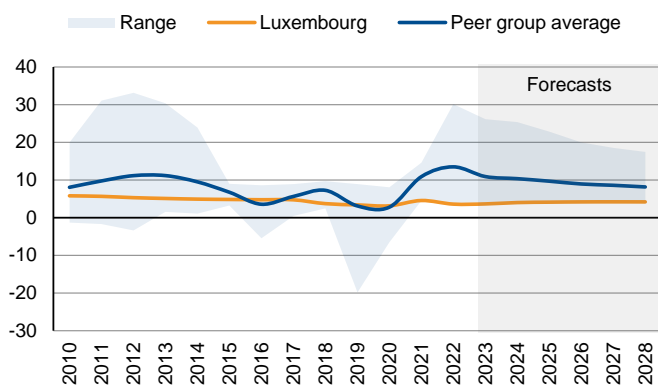
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Luxembourg's *External Economic Risk*

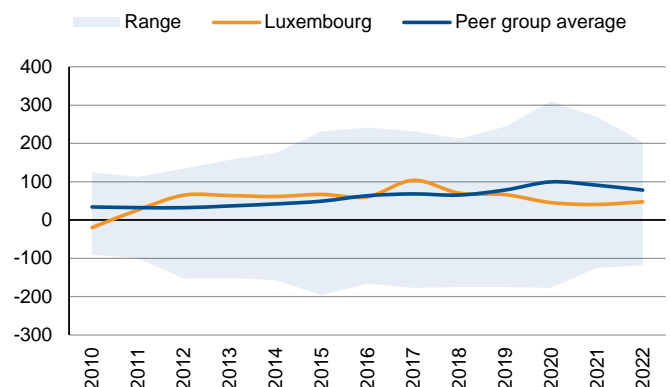
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Current account resilience	Neutral	0	Strong current account surpluses; reliance on financial service exports; sensitive to dividend policies vis-à-vis foreign investors
	External debt structure	Neutral	0	High external debt levels offset by external assets with a net international creditor position
	Resilience to short-term external shocks	Neutral	0	Euro-area membership mitigates risks from strong integration with global financial markets

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



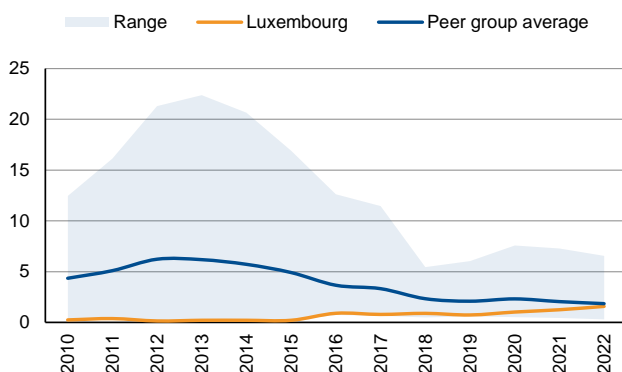
Source: IMF, Scope Ratings

Financial Stability Risk

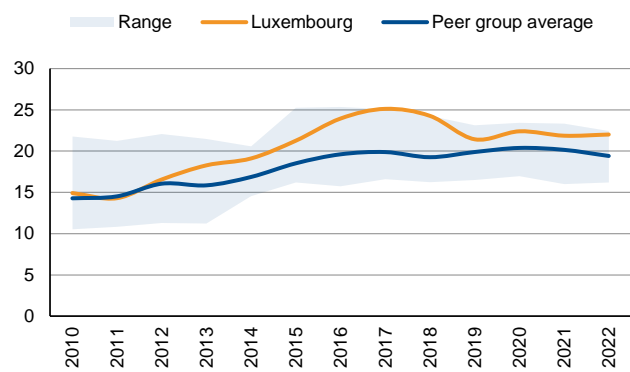
Overview of Scope's qualitative assessments for Luxembourg's *Financial Stability Risk*

CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Efficient banking sector with large capital buffers and strong asset quality but some profitability pressures
	Banking sector oversight	Neutral	0	Efficient, credible oversight frameworks under the Commission de Surveillance du Secteur Financier, the Central Bank of Luxembourg and the ECB
	Financial imbalances	Weak	-1/3	Imbalances in the housing sector due to demand and supply mismatches; high private debt levels mitigated by high net household wealth

Non-performing loans (NPLs), % of total loans



Tier 1 capital, % of risk-weighted assets



Source: World Bank, Scope Ratings

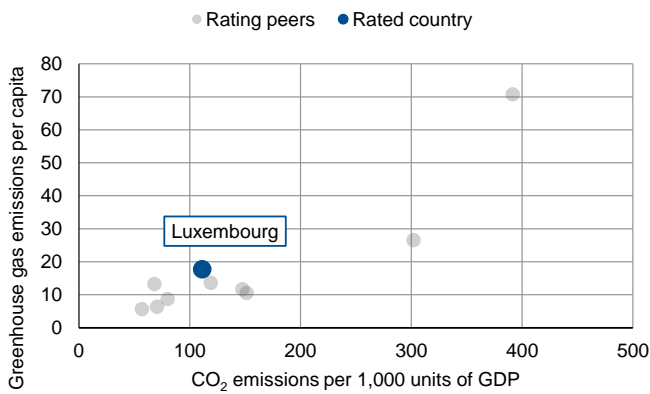
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Luxembourg's ESG Risk

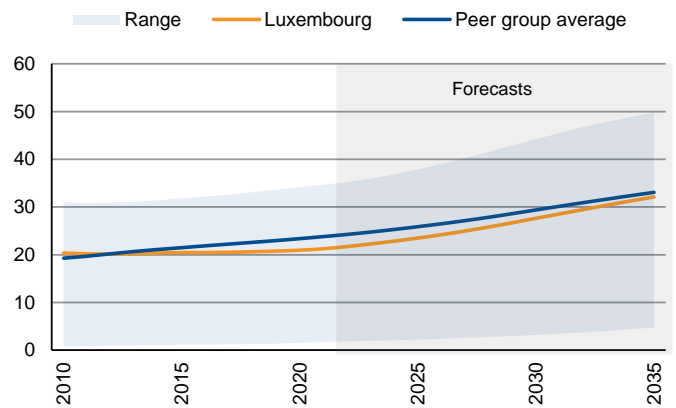
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental factors	Neutral	0	Ambitious climate goals with accelerating climate policy momentum; limited share of renewables; rapid population growth poses challenges
	Social factors	Neutral	0	Strong social outcomes, supported by generous social systems; increasing women participation rates; poverty and inequalities are increasing
	Governance factors	Neutral	0	Strong democratic institutions and stable political landscape; policy continuity expected following recent elections

CO₂ emissions per GDP, mtCO₂e



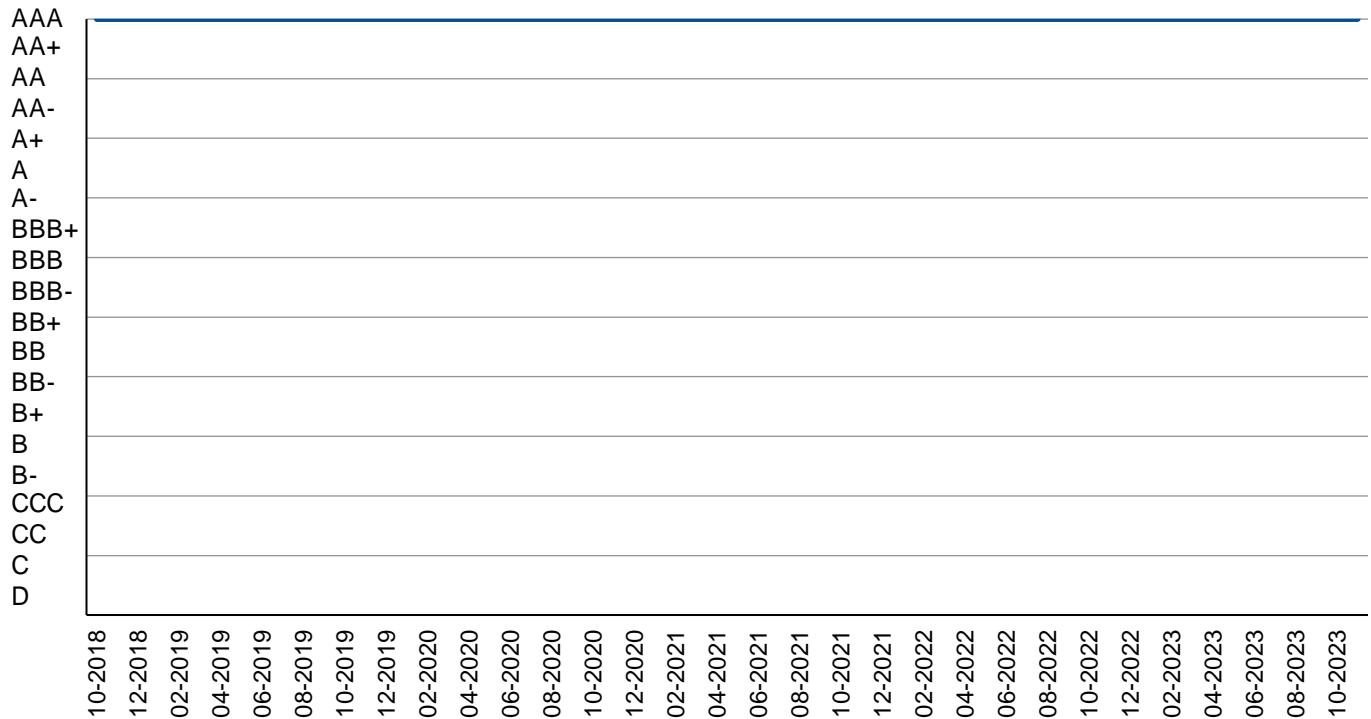
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Denmark
Germany
Ireland
Netherlands
Norway
Sweden
Switzerland

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	118.0	113.8	118.1	134.8	127.6
	Nominal GDP, USD bn	IMF	71.0	69.8	73.9	85.6	82.3
	Real growth, %	IMF	1.2	2.3	-0.8	5.1	1.5
	CPI inflation, %	IMF	2.0	1.7	0.0	3.5	8.1
	Unemployment rate, %	WB	5.6	5.6	6.8	5.3	4.7
Public Finance	Public debt, % of GDP	IMF	20.9	22.4	24.5	24.5	24.3
	Net interest payment, % of revenue	IMF	-0.5	-0.5	-0.5	-0.6	-0.6
	Primary balance, % of GDP	IMF	2.8	2.0	-3.7	0.5	-0.5
External Economic	Current-account balance, % of GDP	IMF	4.7	4.6	4.1	4.8	4.0
	Total reserves, months of imports	WB	0.0	0.0	0.0	0.1	0.1
	NIIP, % of GDP	IMF	59.2	68.0	68.7	38.6	28.5
Financial Stability	NPL ratio, % of total loans	IMF	0.9	0.7	1.0	1.3	1.6
	Tier 1 ratio, % of risk-weighted assets	IMF	24.6	22.8	20.7	21.8	21.6
	Credit to the private sector, % of GDP	WB	105.6	109.1	109.7	104.6	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	136.3	134.3	115.0	111.4	-
	Income share of bottom 50%, %	WID	19.1	19.7	18.9	19.0	-
	Labour-force participation rate, %	WB	71.8	72.8	72.9	74.1	-
	Old-age dependency ratio, %	UN	20.6	20.8	21.0	21.3	21.7
	Composite governance indicators*	WB	1.7	1.7	1.7	1.7	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps)

N/A



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