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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

Luxembourg's economy is characterized by its financial system and a high degree of international openness. The financial sector is the main driving force behind the Grand Duchy's economy, representing about one-third of the country's GDP, making Luxembourg vulnerable to external shocks. After growing 1.4% in 2022, Luxembourg's economy experienced a notable slowdown in 2023, characterized by a contraction in GDP during the second and third quarters. According to the latest estimates from the EU Commission, overall economic activity declined by 0.8% during the year, primarily influenced by contractions in the financial services and construction sectors. However, private consumption, supported by reduced inflation and government assistance measures, along with public consumption, bolstered domestic demand. In 2024, economic activity is anticipated to rebound, with GDP growth projected at 1.5%. Private consumption is forecasted to be sustained by diminishing inflationary pressures, increasing wages, reduced personal income tax, and a gradual relaxation of financing conditions over the forecast period. Looking ahead to 2025, economic growth is poised to accelerate further, reaching 2.4%. Private consumption is expected to remain supportive, particularly as energy and food prices are projected to continue easing.

Luxembourg is the wealthiest country in the world in terms of GDP per capita (PPP) and has the highest current account surpluses as a share of GDP in the eurozone. Luxembourg benefits from substantial fiscal space owing to its low level of public debt and comfortable liquidity position. It generally maintains a healthy budgetary position; however, the budget deficit turned negative in 2023 (-0.2% of GDP) due to energy support measures outlined in the Solidaritéitspak 3.0, which was extended until end-2024. The IMF projects a widening deficit to 1.1% over the forecast horizon. The public debt level is among the lowest in the region, though it increased to 27.6% in 2023 according to the IMF, with an upward trend projected this year and in 2025 (29.3% and 30.2%, respectively). HICP inflation dropped to 2.9% in 2023, primarily due to reduced energy prices. Despite three rounds of wage indexations being triggered, there was a slowdown in the inflation of services' prices. For both 2024 and 2025, one round of wage indexation is projected, with inflation expected at 2.6% and 2.3%, respectively (EU Commission). In recent years, the country has implemented a policy of legal reforms to respond to criticism regarding the lack of transparency of its financial center and its fiscal dumping policy towards multinationals. Luxembourg is cooperating with other countries to fight against fraud and fiscal evasion. Introducing an automated exchange of fiscal information among states has put its banking secrecy de facto to an end. The country was taken off the list of uncooperative tax havens, established by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

After rising following the outbreak of the pandemic, unemployment decreased to 4.8% in 2022, but picked up to 5.2% last year, with a further uptick expected in 2024 (5.8% as per the IMF). The working opportunities attract a large number of border workers: almost 200,000 workers cross every day the French, Belgian, and German borders. Despite being the countries with the highest income per capita (USD 142,214 at PPP in 2022 – World Bank), around 17.4% of residents live below the poverty line, according to the latest data available from Statec (in Luxembourg, the poverty line is calculated at 60% of the median standard of living, i.e. EUR 2,247 per month per adult).

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP <i>(billions USD)</i>	81.71	89.10	94.03	99.09	103.77
GDP <i>(Constant Prices, Annual % Change)</i>	1.4	-0.4	1.5	2.4	2.5
GDP per Capita <i>(USD)</i>	126,598	135,605	140,308	144,960	148,829
General Government Balance <i>(in % of GDP)</i>	1.0	-0.2	-1.1	-1.1	-0.8
General Government Gross Debt <i>(in % of GDP)</i>	24.8	27.6	29.3	30.2	30.4
Inflation Rate <i>(%)</i>	n/a	3.2	3.3	2.2	2.0
Unemployment Rate <i>(% of the Labour Force)</i>	4.8	5.2	5.8	5.9	5.8
Current Account <i>(billions USD)</i>	2.96	3.28	3.79	4.10	4.36
Current Account <i>(in % of GDP)</i>	3.6	3.7	4.0	4.1	4.2

Source: IMF – World Economic Outlook Database , October 2021

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

The government has been aiming at economic diversification and has been encouraging the development of sectors such as communication and information technologies, logistics, e-commerce, and biotechnologies. The number of foreign citizens in the labor market outweighs the number of Luxembourgish nationals.

The agricultural sector is almost non-existent, as the country's arable land is limited to 131.6 thousand hectares (FAO). It contributes only 0.2% to the GDP and employs less than 1% of the active population (World Bank, latest data available). The country's main crops are wine, wood, cereals, and potatoes. According to data from Eurostat, Luxembourg's overall agricultural output (EUR 595 million) accounted for only 0.1% of the total EU output in 2022.

The industrial sector (10.4% of the GDP and 9% of the active population) has historically been dominated by the production of iron and steel. Numerous industrial sites of the mining district in Southern Luxembourg gave its development and its wealth to the country. In recent years, this sector has been diversified with the addition of chemical factories, plastic products, and light engineering. Nowadays, the manufacturing sector represents only 4% of GDP (World Bank). Data from Statistics Luxembourg shows that in 2023, the value of industrial production decreased by 11.5% year-on-year.

With the oil shock of 1973 and the crisis which followed, the Luxembourg economy turned to the development of a services economy like most developed countries. The tertiary sector (employing 90% of the active population) represents 80.4% of the national wealth, with more than half of it attributed exclusively to financial and real estate services. Luxembourg is one of the world's largest money markets and investment fund managers in the world. The financial sector is the economic engine of the country, representing more than one-fourth of GDP and a significant portion of the country's tax revenues. It is the main center of private banks in the Eurozone and home to many reinsurance companies. The Grand Duchy has sought to diversify its economy, currently over-dependent on the financial sector: it is trying to develop its assets to position itself as a center for media and new information and communication technologies and to attract companies providing electronic services, including e-commerce. Nowadays, trade, transport, hotels, and gastronomy sectors combined are the main employers (almost double the employees of the finance and insurance sectors).

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector <i>(in % of Total Employment)</i>	1.1	9.4	89.5
Value Added <i>(in % of GDP)</i>	0.2	12.3	78.4
Value Added <i>(Annual % Change)</i>	3.4	1.4	1.9

Source: World Bank - Latest available data.

Monetary Indicators	2015	2016	2017	2019	2020
Euro (EUR) - Average Annual Exchange Rate For 1 USD	0.94	0.94	0.89	0.89	0.88

Source: World Bank - Latest available data.

FOREIGN TRADE

Due to its small size and location, Luxembourg is highly open to foreign trade, which represents 389% of its GDP (the highest level in the world - World Bank). The country primarily exports commercial services, especially those related to finance. Concerning merchandise, at least 65% of goods and services 'made in Luxembourg' are exported. The main exports by product category are manufactured goods in metals (23.4%), machinery (18.2%), other manufactured goods classified according to raw materials (15.5%), and transport equipment (10%); whereas imports are led by machinery (16.5%), transport equipment (15.9%), chemicals and related products (12.8%), and mineral fuels (9.3% - data Statistics Luxembourg).

Luxembourg is highly dependent on its EU partners, which account for roughly 90% of its foreign trade. Trade activities with its three neighboring countries represent more than 50%. In 2022, its main customers were Germany (25.5%), France (15.3%), Belgium (12.4%), the Netherlands (6.9%), and Italy (4.3%), whereas imports came chiefly from Belgium (24.3%), Germany (22.1%), France (10.7%), the Netherlands (4.8%), and Italy (3.1% - data Comtrade).

In 2022, the country exported USD 134.5 billion of services (-9.4% y-o-y), importing USD 111.3 billion (-7.2% - data by WTO). Although the merchandise trade balance is negative (with imports totaling USD 26.5 billion against USD 17.2 billion of exports), Luxembourg has an overall positive trade balance, estimated at 34% of its GDP by the World Bank (the fifth-highest ratio in the world in 2022). According to preliminary data from the Banque centrale du Luxembourg, in the first half of 2023, the current account showed a surplus of EUR 2 billion, marking a decrease of EUR 486 million compared to the same period of the previous year. The goods deficit stood at EUR 759 million and improved in the first semester of 2023 (EUR 946 million). Overall, exports of goods climbed by 6% while imports decreased by -2%. In the same period, the balance of international trade in services declined by 10.6%, amounting to a decrease of EUR 1.5 billion. This was attributed to a reduction in exports by -1.3%, coupled with an increase in imports by 1.2%.

Foreign Trade Values	2018	2019	2020	2021	2022
Imports of Goods <i>(million USD)</i>	24,175	24,264	21,165	26,170	26,528
Exports of Goods <i>(million USD)</i>	16,412	16,451	13,839	16,800	17,274
Imports of Services <i>(million USD)</i>	87,082	91,547	98,131	119,977	111,326
Exports of Services <i>(million USD)</i>	109,461	112,683	120,848	148,565	134,561

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
Foreign Trade <i>(in % of GDP)</i>	362.4	377.8	365.2	388.1	384.5

Foreign Trade Indicators	2018	2019	2020	2021	2022
Trade Balance <i>(million USD)</i>	2,039	1,618	1,333	1,105	114
Trade Balance (Including Service) <i>(million USD)</i>	24,400	22,756	24,259	29,678	26,334
Imports of Goods and Services <i>(Annual % Change)</i>	3.7	5.7	-0.4	11.8	-0.9
Exports of Goods and Services <i>(Annual % Change)</i>	3.6	4.5	0.2	9.7	-0.6
Imports of Goods and Services <i>(in % of GDP)</i>	164.9	173.5	165.6	176.7	175.1
Exports of Goods and Services <i>(in % of GDP)</i>	197.5	204.3	199.6	211.4	209.4

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
Volume of exports of goods and services (Annual % change)	-2.4	1.4	2.5	2.5	2.4
Volume of imports of goods and services (Annual % change)	-2.2	1.3	2.6	2.5	2.5

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

Member of the European Union, WTO, OCDE

Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
Germany	25.5%
France	15.3%
Belgium	12.4%
Netherlands	6.9%
Italy	4.3%
See More Countries	35.7%

Main Suppliers <i>(% of Imports)</i>	2022
Belgium	24.3%
Germany	22.1%
France	10.7%
Netherlands	4.8%
Italy	3.1%

Main Suppliers (% of Imports)	2022
See More Countries	34.9%

Source: Comtrade, Latest Available Data

POLITICAL OUTLINE

Current Political Leaders

Grand Duke: HENRI (since 7 October 2000) - hereditary

Prime Minister: Luc FRIEDEN (since 17 November 2023)

Next Election Dates

Chamber of Deputies: 31 October 2028

Main Political Parties

Luxembourg has a multi-party system. No party has a chance of gaining power alone, and parties work with each other to form coalition governments. The major political parties in the country are:

- [Christian Social Party](#) (PCS/CSV): centre-right, a Christian democratic conservative party with a pro-Euro ideology
- [Democrat Party](#) (PD/DP): centre, centre-right, follows the liberal political ideology
- [Socialist Workers' Party](#) (POSL/LSAP): centre-left, progressive
- [Alternative Democratic Reform Party](#) (ADR): centre-right, a conservative nationalist party, eurosceptic
- [Greens](#): centre-left, green politics
- [Pirate Party](#): direct democracy, pro-European
- [The Left](#) (Déi Lénk): centre-left.

Executive Power

The chief of the state is the [Grand Duke](#). The monarch is hereditary. Following popular parliamentary elections, the leader of the majority party or the leader of the majority coalition is appointed as Prime Minister by the monarch to serve a five-year term. Prime Minister is the head of the government and enjoys executive powers which include implementing the law and running the day-to-day affairs of the country. The [Council of Ministers](#) (cabinet) is recommended by the Prime Minister and appointed by the monarch.

Legislative Power

The legislative power is based on the joint action of the Chamber of Deputies, the Government and the Council of State. The [Chamber of Deputies](#), composed of 60 deputies elected for five years by universal suffrage, has the main function of voting bills. Its members also have a right of "parliamentary initiative" which is exercised by the presentation of bills, but which remains moderately used.

The [Council of State](#) is an advisory body composed of 21 members appointed by the Grand Duke on the advice of the Prime Minister.

COVID-19 COUNTRY RESPONSE

Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

Economic recovery plan

The summary of the EU's economic response to the COVID-19 pandemic is available on the website of the [European Council](#).

For the general overview of the key economic policy responses to the COVID-19 outbreak (fiscal, monetary and macroeconomic) in Luxembourg, please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).