



Luxembourg



Did you know...?

Geography The country is one of the smallest in the entire EU, and ranked 175th in size in the entire world.

History The recorded history of Luxembourg starts in 963, and in the 14th and 15th centuries members of the House of Luxembourg reigned as Holy Roman Emperors.

Languages Luxembourg is a trilingual country, where French, German and a Franconian language called Luxembourgish are spoken.

European Union Thanks to its central location, its financial regulatory system and its financial sector, Luxembourg is home to the European Investment Bank, a financial institution of the European Union, and to the European Financial Stability Facility.

Fun Fact The country is the only remaining sovereign Grand-Duchy in the whole world where the Grand-Duke constitutionally still retains executive powers, even though they are now delegated to the government.

An overview of Luxembourg's economy

The stability of its banks and the productivity of its manufacturing industry sheltered the wealthiest country in the EU from the worst of the financial and economic turmoil of the global crisis.

This tiny founding member of the European Coal and Steel Community, the precursor to today's European Union, has always been one of the major proponents of European integration. The Grand-Duchy of Luxembourg adopted the Euro in January 1999.

Natural resources fuelled the country's industrial development in past decades, especially in steel production. Luxembourg was once home to Arcelor, now ArcelorMittal, the greatest steel producer of the world. The country's economy is tightly linked to all of its neighbors, which coincide with its principal export destinations.

Manufacturing still plays an important role in the Grand-Duchy's economy. However, the growth in the financial sector has balanced the decline in industrial output. Luxembourg attracts foreign direct investment inflows thanks to its political stability and positive labor relations. The country has attracted financial institutions and many hedge funds. Luxembourg has the highest GDP per capita in the entire EU and ranks 1st or 2nd, according to the methodology used, in the entire world.

Luxembourg's financial sector was less exposed than those of other EU economies, but it too was impacted by the financial crisis.

GDP contracted by 3.4% in 2009, less than the majority of euro area member states. Unemployment, which had been rising since the beginning of 2008, has begun to fall again and stands at 4.4%, with further declines in 2012.

The government responded quickly to crisis. A prompt and aggressive policy response safeguarded the financial sector and mitigated adverse economic effects

Concerns about the future size of the public debt stock have influenced the government in planning new fiscal austerity measures, a major reform of healthcare, and a review of the wage indexation system.

Looking forward, the resilience of Luxembourg's economy will depend on cultivating its comparative advantage in high value added niche activities.





Luxembourg's Economy – Key Facts

- Luxembourg registers one of the highest, if not the highest, GDP per capita of the entire world. Taxation is moderate for households, and the welfare state is quite developed, making the country one of the places with the highest standards of living in the world.
- The World Economic Forum (WEF) Global Competitiveness Report for 2011/2012 ranked Luxembourg 23rd out of 139 countries, and it gets excellent grades for its technological readiness and for market efficiency.
- The World Bank's Doing Business Report ranked Luxembourg 45th out of 183 countries in 2011.
- According to the European Commission's Spring 2011 forecast, GDP grew 3.4% in 2011, is expected to average 3.8 over the course of 2012. This comes after a contraction of 3.6% in 2009. Fiscal stimulus enacted during the crisis helped cushion the downturn, but Luxembourg returned to small surpluses in 2010. Although public debt is expected to rise to 19% of GDP in 2012, it remains among the lowest in the Euro area.
- At the beginning of the crisis, the government approved a series of fiscal spending measures in order to prevent the economy from sliding into a deeper recession. Now, the government is considering taking action on such issues as health sector reform, longer-term pension reform and changes to the wage indexation system. Moreover, the government is trying to diversify Luxembourg's economy by incentivizing more research and development with tax cuts for such activities.

References

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Exports Steel and other manufactured goods constitute the core of Luxembourg's exports. The Grand-Duchy relies heavily on exports for its growth.

Wages are indexed to various factors, including inflation. For this reason, wages automatically increase. A reform of such indexing is being considered by the government and trade unions, in order to curb its impact on the budget.

Inflation Due to its reliance on imports for energy production and the rise in oil prices, inflation has been climbing above the euro area average, reaching 3.8% the first quarter of 2011. However, inflation is expected to decelerate during the rest of 2011 and into 2012.

Unemployment Luxembourg recorded one of the lowest unemployment rates of the EU, averaging 4.4%, which is still well below the European average.

Agriculture The Grand-Duchy's small but productive agricultural sector is highly subsidized both from the government and the European Union. Vineyards in the Moselle Valley produce up to 15 million liters of wine a year.