

Luxembourg

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Macroeconomic overview

As all other European economies, Luxembourg was adversely affected by the international financial and macroeconomic turmoil during 2009. Real GDP recorded a recession for the first time since 1981, falling by 3.4% (the 2008 figure having been revised upward to 0.0%, formerly -0.9%). The dramatic decrease in gross fixed investment (-14.9%) was behind this performance. In addition, exports, which play an essential role in the country's small, open economy - linked very much to the German and French economies - recorded a significant downturn (-13.1%). The only slightly positive contribution to GDP growth came from private consumption (0.3%). The current account balance improved compared to 2008 and recorded a surplus of 5.6% of GDP (5.3% in 2008).

Inflation remained flat as a consequence of the weak economic activity, after the peak in 2008 (4.1%). Despite overall adverse macroeconomic conditions, the unemployment rate rose moderately (from 4.9% to 5.4%), and total employment recorded another positive annual growth rate over the previous year (by 0.9%), albeit slowing down from 2008 (4.7%). Public finances deteriorated as a consequence of the GDP recession and the deficit to GDP ratio turned negative for the first time since 2004 (-0.7%), however well below the 3% ceiling imposed by the Maastricht Treaty. At the same time government debt reached its peak since 1972 (14.5% of GDP).

	EU27, 2009	Luxembourg, 2009	Luxembourg, 2008
GDP growth (%)	-4.2	-3.4	0.0
Unemployment rate (%)	8.9	5.4	4.9
Inflation (%)	1.0	0.0	4.1
% owner occupied	68.2	75.0	75.0
Residential Mortgage Loans as % GDP	51.9	42.0	37.9
Residential Mortgage Loans per capita, EUR thousand	12.37	32.10	30.79
Total value of residential loans, EUR million	6,125,727	15,842	14,901
Annual % house price growth	-6.8	-2.1	2.7
Typical mortgage rate (euro area), %	2.71	2.03	4.22
Outstanding Covered Bonds as % outstanding residential lending	23.2	n/a	1.0

Source: EMF, Eurostat, ECB, Central Bank of Luxembourg, Statistics Luxembourg

Housing and mortgage markets

Residential construction in Luxembourg was only partly affected by the unfavourable macroeconomic environment, and available indicators seem to show that both housing supply and housing demand recorded a slowdown rather than a fall which is comparable to those recorded in other EU markets.

The number of residential building permits declined by 8.0%, representing a slowdown from the 18.6% fall recorded in 2008 after the peak in residential construction activity of 2007 (4,934 units). Yet, according to national accounts data, real fixed residential investment in values recorded a booming performance (28.6%). Data on housing completions was not available for 2009 and 2008. On the demand side, house prices fell by 2.1% after the 2.7% increase recorded in 2008.

Outstanding mortgage lending reached EUR 15.8 billion, which represented an increase of 6.3% on 2008 (a slight slowdown after 7.6% in the previous year). Mortgage interest rates went down to a historical low of 2.03% as a result of the continued expansionary monetary policy within the euro area.

Funding

While in 2009 outstanding covered bonds accounted for 1.0% of outstanding residential lending and reached EUR 150 million, no outstanding covered bonds were recorded in 2009 in Luxembourg. Equally, no mortgage covered bonds and MBS were issued in 2009.

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Luxembourg= 2008