

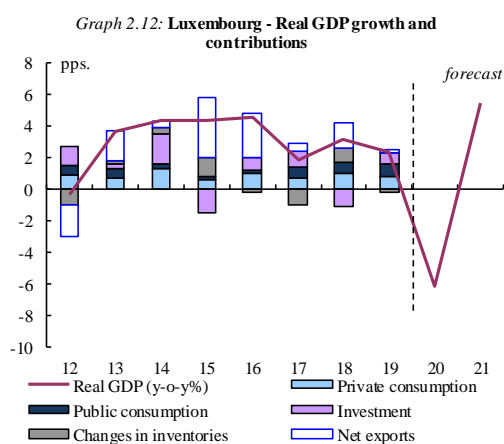
2.12. LUXEMBOURG

Real GDP grew by 2.3% in 2019, below the rate observed in recent years, but still above the euro area average. Real GDP is projected to fall by 6¼% in 2020, as a result of the COVID-19 outbreak. In the first quarter of 2020 real GDP declined by 2.9% versus the last quarter. Domestic demand is forecast to decline due to lower private consumption and investment, while government consumption is set to cushion only part of the fall in 2020. Net exports are also expected to contribute negatively to GDP growth. ⁽¹⁾

Private consumption is expected to decline markedly in 2020 due to the pandemic and its associated containment measures and due to the weakening of the labour market via both a higher unemployment level and lower employment creation. The lockdown is likely to have reduced both the cross-border consumption in fuels and tobacco and the consumption by the large number of cross-border workers in Luxembourg. However, government measures, notably for short-time employment and special family leave, are projected to soften the shock to consumption. Investment is projected to fall in the private sector due to the uncertain economic outlook. As a consequence of the crisis-related measures, government consumption is expected to rise strongly in 2020. Net exports are expected to weigh on growth due to the decline in international trade. The volatility on financial markets following the outbreak of the health crisis and the decline in economic activity is projected to weigh on the value added of the financial sector, which represents a large share of Luxembourg's GDP.

For 2021, a rebound in GDP growth to 5½% is expected, but with risks that are mainly on the downside, depending on the evolution of the health situation and the developments in the financial and external sectors.

HICP inflation declined to 1.6% in 2019, is forecast to drop to 0.1% in 2020 and rebound to 1.5% in 2021. In 2020 a sharp decline is expected, as lower energy prices, the fall in demand due to the crisis, and the introduction of free public transport in March are expected to outweigh the rise in food prices. Wages are expected to be under pressure in 2020 and 2021 and therefore lead to moderate inflation in service prices.



⁽¹⁾ Luxembourg's national accounts can be subject to significant revisions, among others due to methodological difficulties stemming from the role of multinational firms and financial services in the external sector.