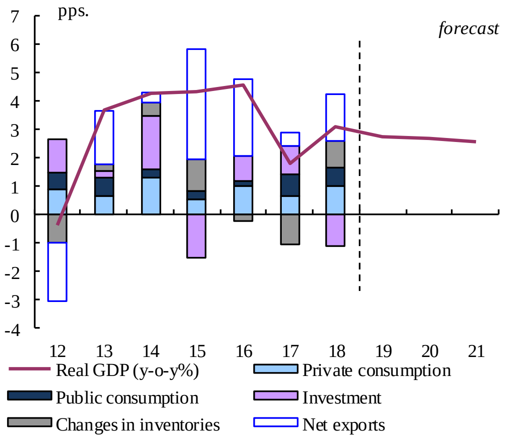
2.12. LUXEMBOURG

Economic growth in Luxembourg is expected to have slowed moderately to 2.7% in 2019 from 3.1% in 2018. Strong private consumption growth is expected to have been the main driver, with some additional support from foreign demand. However, Luxembourg's national accounts are subject to frequent and sometimes substantial revisions, among others due to methodological difficulties linked to the important role of multinational firms and of financial services in external trade.

Strong labour market conditions should provide continued support to consumption growth, the main driver of domestic demand. Household purchasing power is expected to receive support from budgetary measures as well as wage increases and pensions indexation. However, employment growth is projected to slow down in 2020 and 2021, especially among the resident population. After the rebound in 2019, investment growth is forecast to weaken gradually, despite rising public investment growth. Overall, domestic demand growth is projected to moderate but remain the main driver of GDP growth, which is forecast to stabilise at 2.7% in 2020 and slow down to 2.6% in 2021.

Graph 2.12: **Luxembourg - Real GDP growth and contributions**



The contribution of net exports to growth is expected to have decreased markedly in 2019 amid weaker activity in international financial services, which are the main driver of service sector exports in Luxembourg. However, net trade's contribution to growth is projected to slightly increase over the forecast horizon, partially offsetting the weakening of domestic demand. Luxembourg remains highly exposed to external risks as a potential rise in uncertainty, notably in financial markets, could result in a less benign outcome for the economy.

HICP inflation fell to 1.6% in 2019 and is forecast to increase slightly to 1.7% in 2020 and 1.9% in 2021. Base effects related to lower energy inflation already contributed to the decline in headline inflation in 2019 and should remain in place in 2020. Domestic price pressures, including from wage increases, are set to push up services inflation in 2020 and 2021. These price pressures are expected to be partly offset by recent fiscal measures, including the introduction of free public transport in March 2020.