

2.12. LUXEMBOURG

After an estimated q-o-q growth rate of 1.4% in the first quarter of this year, real GDP growth is expected to bounce back to 4.8% on an annual basis in 2021, before moderating to 3.3% in 2022. Luxembourg's economy performed relatively well in 2020, thanks to information and communication exports and the financial services sector. As a result, real GDP had already reached its pre-crisis level in the fourth quarter of 2020. In recent weeks, the accelerating pace of the vaccination campaign and the improvement in the health situation have prompted a gradual relaxation of restrictions affecting contact-intensive services. This trend is assumed to continue in the coming months, along with a broader reopening of the economy.

Sentiment indicators also suggest a positive outlook for Luxembourg's economy. Business sentiment has improved, also outside the financial services sector. Consumer sentiment, meanwhile, showed a strong recovery in spring, particularly concerning expectations about consumers' future financial situation. This is in line with an observed increase in employment, mirrored by a drop in unemployment this year, which should also support the rebound in consumption.

Improvements in the economic outlook for Luxembourg's commercial partners bode well for export growth. Furthermore, the upward movement in stock market indexes in the first half of the year is casting a positive light on financial markets, which should support the financial sector.

HICP inflation is projected to rise to 2.5% in 2021 due to oil price increases, the introduction of a carbon tax, the rebound in consumption, and base effects linked to the introduction of free public transportation in 2020. However, this pressure on prices is expected to be temporary and to ease in 2022. Consequently, HICP inflation is expected to decline to 1.7% in 2022, more in line with core inflation.

