

2.12. LUXEMBOURG

GDP is estimated to have strongly rebounded by around 7% in 2021, following a relatively limited decline of 1.8% in 2020. This strong growth is mainly driven by private consumption, which grew above its pre-crisis level in the third quarter of 2021. Investment increased in the first two quarters, before decreasing in the third quarter of the year. Almost all the sectors are expected to positively contribute to GDP growth in 2021, with information and communication services registering the most favourable dynamic. Despite the high vaccination rate, growth in the fourth quarter is set to have been negatively affected by a worsening of the epidemiological situation, leading to the (re-)introduction of additional sanitary measures. These restrictions are expected to mainly affect hotels and restaurants, as well as cultural activities. Nevertheless, even if slowed down, quarterly GDP growth is projected to have remained positive.

On an annual basis, GDP is forecast to continue expanding in 2022 and 2023, although at a slower pace than in 2021, with yearly growth rates of 3.9% and 2.9%, respectively. Private consumption is estimated to further increase, supported by a decrease in the high saving rates, which are expected to reach their pre-crisis level in 2023. Nevertheless, the increased uncertainty about geopolitical tensions, energy prices and the duration of the health crisis could negatively impact equity markets, having in turn a potential adverse impact on the financial sector in the country.

Following a zero inflation rate in 2020, inflation increased significantly in 2021, reaching 3.5%. Inflation is forecast to rise to 3.8% and 1.5% in 2022 and 2023, respectively, underpinned by high energy prices - which are estimated to peak in the first quarter of 2022 - as well as increased prices for non-energy goods and services.

