

Country Insight Snapshot

Luxembourg

July 2022





Overall Country Risk Rating: DB2d

Last change: March 2022



Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

Rating Outlook: Deteriorating

WorldWatch Headline

We have downgraded the short-term economic outlook due to a fall in both business and consumer confidence because of the adverse impacts of the war in Ukraine.

Recent Changes

- The short-term economic outlook is downgraded amid falling business/consumer confidence.
- Luxembourg's market potential is deteriorating as the surge in inflation erodes households' purchasing power.
- The outlook for Luxembourg's business/regulatory environment is stable as the government offers EUR225m in energy subsidies to business.
- The outlook for business continuity is deteriorating amidst the possibility of a cut in energy supplies from Russia on which the country depends for a quarter of its gas.

Events to Watch

- The war in Ukraine, which will have adverse consequences for trade, investment and financial flows into Luxembourg.
- The price and availability of energy and commodities on the world market.
- The surge in inflation which has reduced demand and stifled the post-pandemic recovery.
- International efforts to establish a global minimum corporation tax of 15%, which could force Luxembourg to give up its special tax deals.

Call to Action

- Plan for a slowdown in growth in 2022-23 and a decline in sales to Luxembourg.
- Monitor developments in Russia and Ukraine.



Country Insight Headlines

Credit Environment

Score: DB2d



Last change: March 2022 (DB2c→DB2d)

Rating Outlook: Deteriorating

Risks and Opportunities

- The outlook for the credit environment is deteriorating as the crisis in Ukraine creates volatility in financial markets and the ECB plans to raise interest rates.
- The stock of loans to the private sector is falling, by 9.8% in real terms in May, as inflation surges and banks tighten their lending criteria.
- With just EUR4.0bn of deposits and 1% of all fund activity, Luxembourg's banking sector has only limited direct exposure to Russia.
- Banks have raised their fees, by an average of 15% in annual terms in the first quarter. Debit and credit card charges and insurance fees have all risen.

Trade Terms

Description	
Minimum Terms	OA
Recommended Terms	OA
Usual Terms	0-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- Plan for a weakening of the euro in 2022.
- [Monitor counterparty risk](#) closely as spillover from the war, including sanctions on Russia, is creating new financial pressures.
- Exercise caution when extending credit to local parties as the economic environment declines.



Supply Environment

Score: DB2d

Last change: March 2022 (DB2b→DB2d)



Rating Outlook: Deteriorating

Risks and Opportunities

- The outlook for business continuity is deteriorating amidst continued uncertainty about the cost and availability of energy.
- The economy is experiencing a shortage of labour, especially in sectors such as hospitality, tourism and construction which shed staff during the lockdown.
- The government has ended the requirement to wear facemasks indoors, the last of its containment measures against coronavirus
- Luxembourg and Russia have ended direct flights, meaning that travellers and cargo between the two must now travel via a neutral third country.
- The country is at risk of drought this year due to a shortfall of rain in spring and an unprecedented heatwave in July.

Call to Action

- Monitor the sanctions regime between the EU and Russia.
- Factor the risk of delayed deliveries into short-term business planning.
- Firms should continually [monitor supplier risk](#) given the difficulties which some parts of the economy are experiencing.



Market Environment

Score: DB2b

Last change: July 2022 (DB2a→DB2b)



Rating Outlook: Deteriorating

Risks and Opportunities

- The outlook for Luxembourg's market environment is deteriorating due to the negative impacts of war in Ukraine and the tail-end of the coronavirus crisis.
- The surge in inflation is eroding real incomes and reducing the purchasing power of households, which are likely to reduce their consumption accordingly.
- Business confidence fell in June to its lowest level since March 2020, as firms worry about a surge in input costs and falling demand.
- Consumer confidence similarly fell in June and remains close to the all-time low recorded in March amidst concerns about inflation, employment and financial security.
- The government has offered fiscal support to businesses amidst a surge in inflation, including EUR225m in energy subsidies.

Call to Action

- Plan for a fall in sales.
- Make use of [analytical tools](#) to identify new potential customers and market opportunities.
- Customs agencies should take steps to [improve connectivity](#) with other agencies and trading partners.



Political Environment

Score: DB1d



Last change: March 2022 (DB1c→DB1d)

Rating Outlook: Deteriorating

Risks and Opportunities

- The outlook for the political environment is deteriorating due to fallout from the war in Ukraine, including a surge in inflation and an influx of refugees.
- Luxembourg is at increased risk of cyberattack from Russia because of its assistance to Ukraine; data centres and critical infrastructure are vulnerable.
- The government supported an EU embargo on imports of oil from Russia in May and has said it would support a similar embargo on imports of Russian gas.
- The authorities have started to freeze bank deposits, securities and physical assets owned by Russian oligarchs and companies, so far totalling EUR4.5bn.
- The government is stable and popular, with polls in June suggesting it is on course for a third parliamentary mandate following elections in October 2023.

Call to Action

- Monitor political developments in Russia and Ukraine.
- Keep up to date with [information on entities and individuals](#) that threaten national security or bypass lawful trade and commerce.
- Investors in strategic sectors and from countries without bilateral investment treaties may wish to take out guarantees against expropriation.



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