

# Grand Duchy of Luxembourg

## Rating report

### Rating rationale

**Wealthy economy with solid fundamentals:** Luxembourg benefits from its high wealth levels and competitive economy, supported by strong labour productivity and high value-added sectors such as financial services and information and communication technology. These factors, alongside a stable and effective policymaking framework, contribute to Luxembourg's economic resilience and its robust medium-term growth outlook.

**Sound public finances and ample fiscal buffers:** Luxembourg's public finances benefit from very low public debt and substantial fiscal space, providing comfortable buffers to face potential future shocks. The fiscal balance is forecast to remain slightly negative over coming years, reflecting permanent budgetary adjustments and ambitious public investment commitments, while the debt-to-GDP ratio is seen remaining broadly stable at one of the lowest levels in the euro area.

**Strong external position:** Euro area membership, consistent current account surpluses and a large external creditor position largely mitigate risks linked to Luxembourg's small, open economy and volatile net international investment position.

**Rating challenges:** i) a small, open economy that is exposed to external developments, including volatility in international financial markets; ii) heightened financial vulnerabilities linked to the evolution of the real estate sector and elevated private debt levels amid tighter monetary policy; and iii) long-term fiscal pressures linked to population ageing and a generous social welfare system.

### Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

### Local currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Figure 1: Luxembourg's sovereign-rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	aa-	EUR	Luxembourg	0	AAA
Public finance risk		20%	aa+			0	
External economic risk		10%	aa+			0	
Financial stability risk		10%	aaa			- 1/3	
ESG risk	Environmental factors	5%	bbb+	[+1]	[-0]	0	
	Social factors	7.5%	bbb-			0	
	Governance factors	12.5%	aaa			0	
Sovereign Quantitative Model		aaa				0	
Additional considerations						0	

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#).

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Credit strengths and challenges

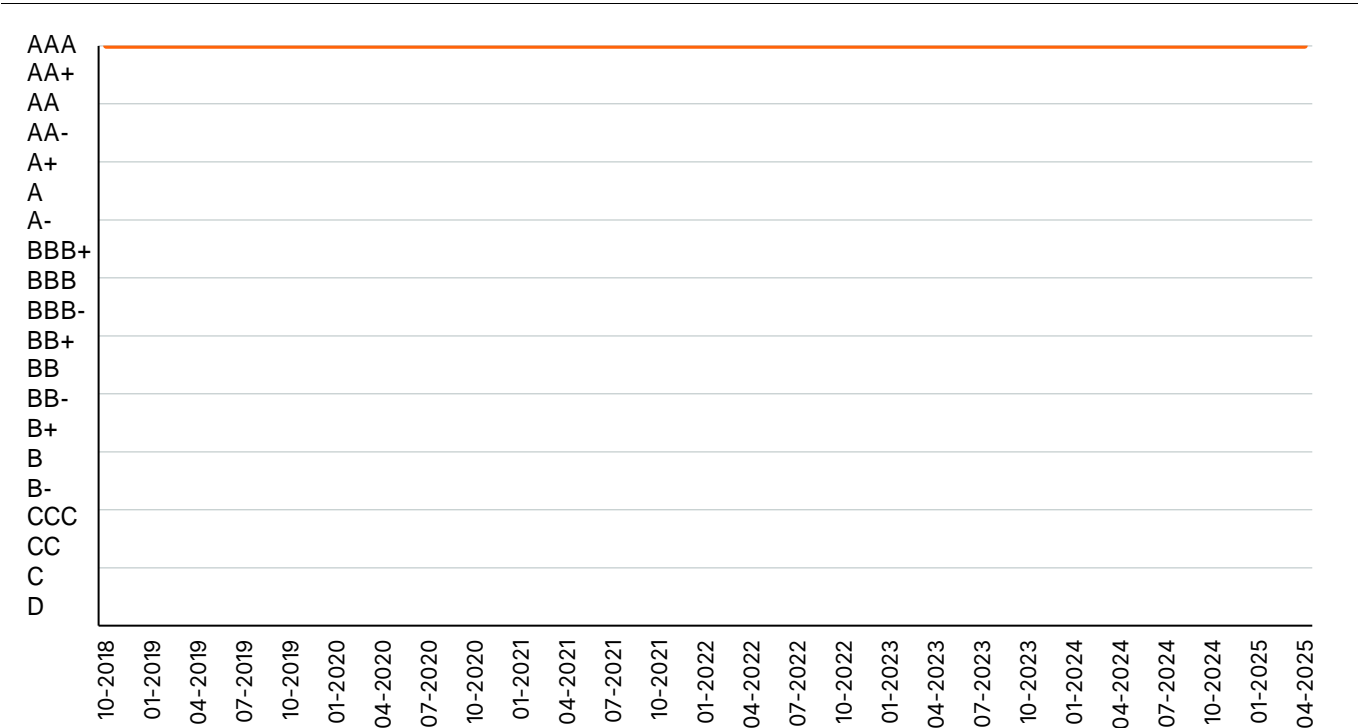
Credit strengths	Credit challenges
<ul style="list-style-type: none"><li>Wealthy economy with solid fundamentals</li><li>Sound public finances and robust fiscal framework</li><li>Strong external position</li><li>Very strong institutional and political stability</li></ul>	<ul style="list-style-type: none"><li>Exposure to adverse external developments, as a small, open economy</li><li>Heightened vulnerabilities stemming from imbalances in the real estate sector</li><li>Long-term fiscal pressures from an ageing population</li></ul>

Outlook and rating triggers

The Stable Outlook reflects the view that risks for the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"><li>N/A</li></ul>	<ul style="list-style-type: none"><li>Growth outlook deteriorates substantially</li><li>Vulnerabilities in the financial system threaten macro-economic stability</li><li>Fiscal fundamentals weaken significantly</li></ul>

Figure 2: Rating history



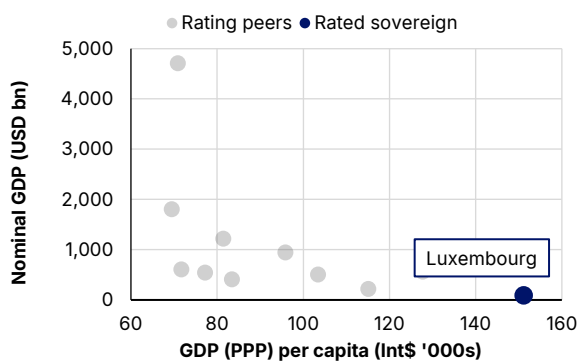
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Luxembourg's Domestic Economic Risk

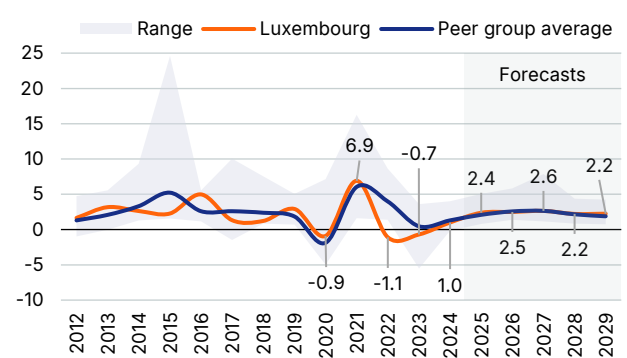
SQM <sup>1</sup> indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential and outlook	Strong	1/3	High growth potential, supported by sound economic policies and high value-added sectors
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macroeconomic stability and sustainability	Weak	- 1/3	Small, open economy that is subject to volatility

Figure 3: Nominal GDP and GDP per capita (2024E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



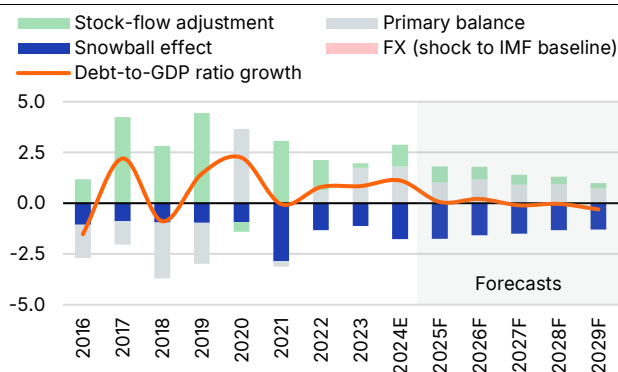
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Luxembourg's Public Finance Risk

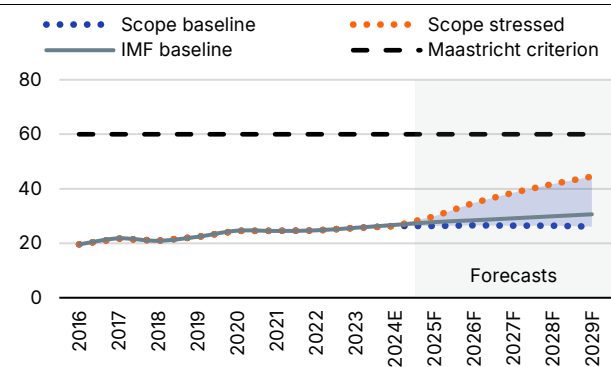
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Effective fiscal policy framework with track record of prudent budgetary management
	Long-term debt trajectory	Neutral	0	Very low debt levels; long-term fiscal pressures stemming from population ageing
	Debt profile and market access	Neutral	0	Favourable debt profile with a low interest payment burden

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

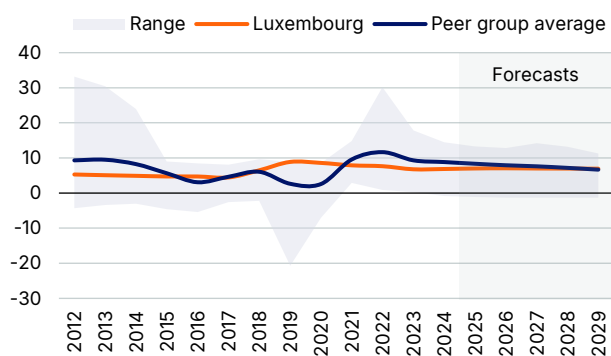
<sup>1</sup> Sovereign Quantitative Model

## External economic risk

### Overview of Scope's assessments of Luxembourg's *External Economic Risk*

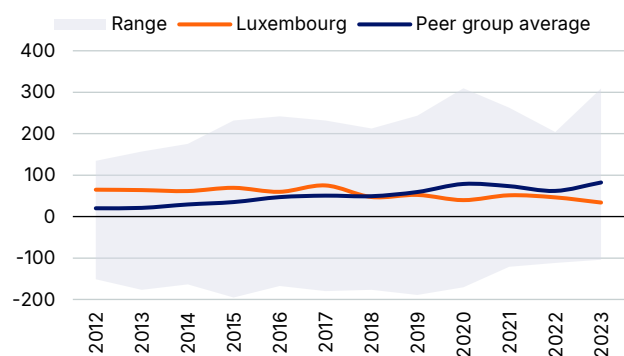
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Current account resilience	Neutral	0	Strong current account surpluses; reliance on financial service exports; sensitive to dividend policies vis-à-vis foreign investors
	External debt structure	Neutral	0	High external debt levels offset by external assets with a net international creditor position
	Resilience to short-term external shocks	Neutral	0	Euro-area membership mitigates risks from strong integration with global financial markets

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



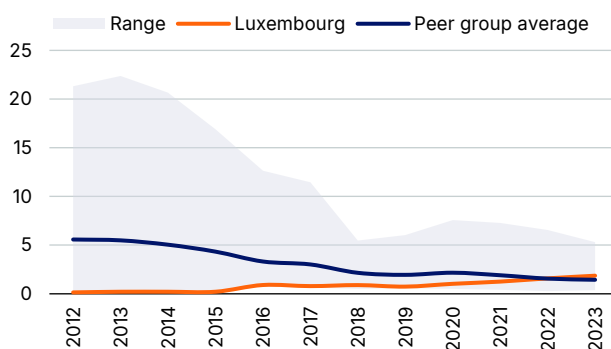
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Luxembourg's *Financial Stability Risk*

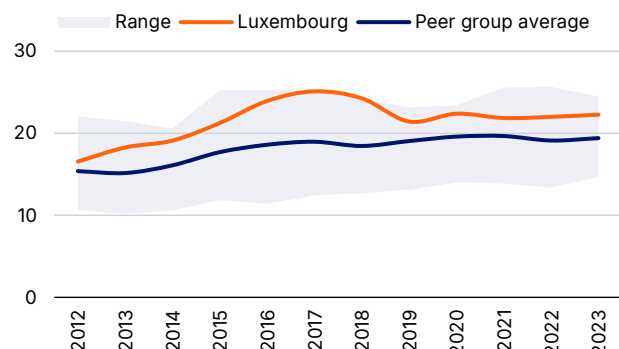
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Efficient and resilient banking sector with large capital buffers and strong asset quality
	Financial sector oversight and governance	Neutral	0	Efficient, credible oversight frameworks under the Commission de Surveillance du Secteur Financier, the Central Bank of Luxembourg and the ECB
	Financial imbalances	Weak	- 1/3	Imbalances in the housing sector due to demand and supply mismatches; high private debt levels mitigated by high net household wealth

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



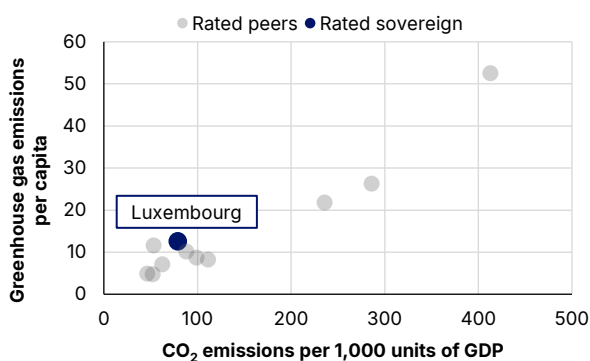
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Luxembourg's ESG Risk

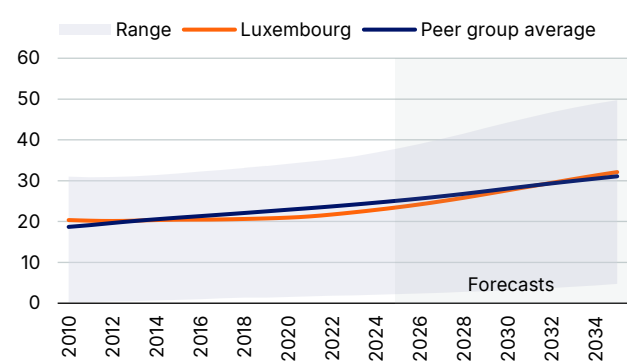
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Environmental factors	Neutral	0	Ambitious climate goals with accelerating climate policy momentum; limited share of renewables; rapid population growth poses challenges
	Social factors	Neutral	0	Strong social outcomes, supported by generous social systems; increasing women participation rates
	Governance factors	Neutral	0	Stable political environment, high institutional effectiveness and track-record of broad policy continuity

Figure 11: CO<sub>2</sub> emissions per capita/GDP (2023), mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

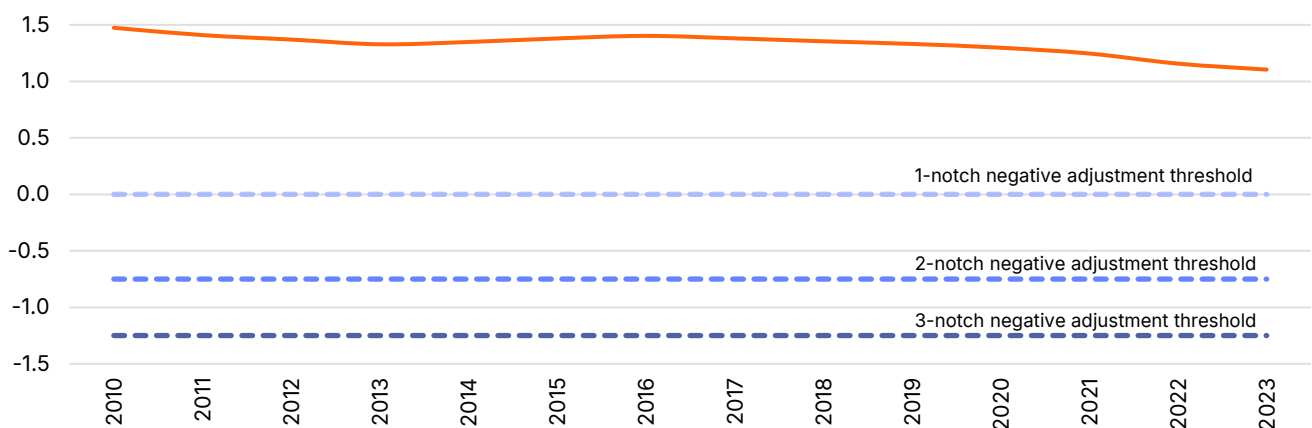
### IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Luxembourg, three-year moving average



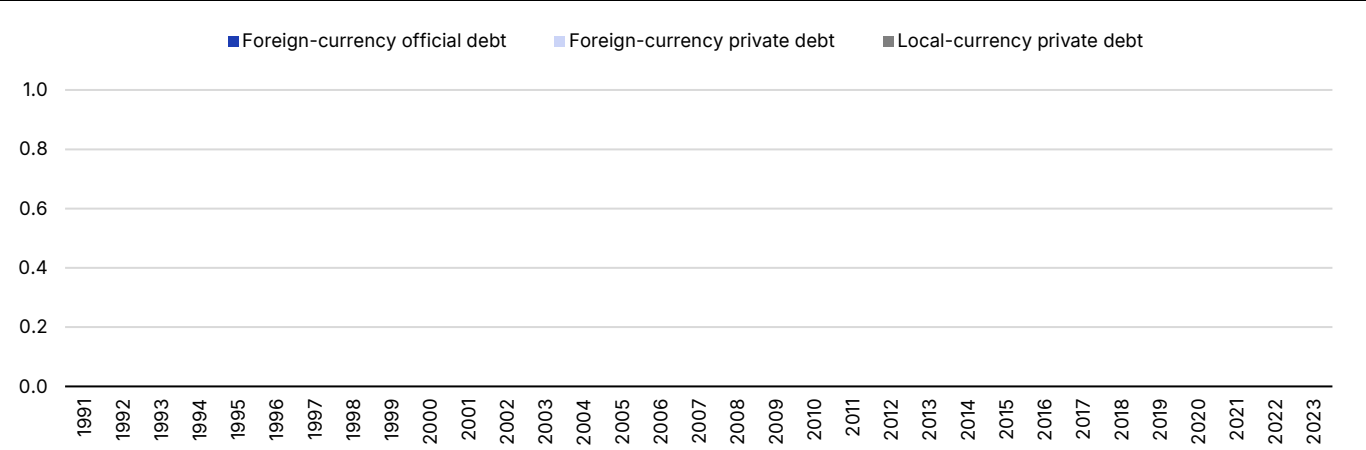
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix 1. Sovereign default history

Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Denmark
Germany
Ireland
Netherlands
Norway
Sweden
Switzerland

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5-year USD CDS spread (bps)	n/a

#### Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	122.6	123.0	139.1	148.6	148.7	151.1
	Nominal GDP, USD bn	IMF	70	74	86	82	86	91
	Real growth, %	IMF	2.9	-0.9	7.2	1.4	-1.1	1.3
	CPI inflation, %	IMF	1.7	0.0	3.5	8.2	2.9	2.5
	Unemployment rate, %	WB	5.6	6.8	5.6	4.6	5.2	-
Public Finance	Public debt, % of GDP	IMF	22.4	24.6	24.5	24.7	25.7	26.7
	Net interest payment, % of government revenue	IMF	-0.5	-0.5	-0.6	-0.7	-1.1	-1.1
	Primary balance, % of GDP	IMF	2.0	-3.7	0.3	-0.6	-1.7	-1.8
External Economic	Current-account balance, % of GDP	IMF	8.9	8.6	7.9	7.7	6.8	6.9
	Total reserves, months of imports	WB	0.0	0.0	0.1	0.1	0.1	-
	NIIP, % of GDP	IMF	52.2	39.6	51.3	46.3	33.8	-
Financial Stability	NPL ratio, % of total loans	IMF	0.7	1.0	1.3	1.6	1.9	-
	Tier 1 ratio, % of risk-weighted assets	IMF	22.8	20.7	21.8	21.6	22.2	22.7
	Credit to the private sector, % of GDP	WB	109.0	110.2	104.0	101.5	96.5	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	115.7	96.4	94.3	81.1	79.2	-
	Income share of bottom 50%, %	WID	19.5	19.2	19.2	19.2	19.2	-
	Labour-force participation rate, %	WB	71.9	72.1	73.3	73.1	74.0	-
	Old-age dependency ratio, %	UN	20.8	21.0	21.3	21.7	22.3	22.9
	Composite governance indicators*	WB	1.7	1.8	1.7	1.8	1.8	-
	Political stability, index	WB	1.4	1.3	1.3	1.2	1.2	1.1

\*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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**Applied methodology**

[Sovereign Rating Methodology](#), January 2025

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