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Announcement: Moody's: Luxembourg's credit profile remains strong, despite economic uncertainties related to ongoing regulatory and tax changes

Global Credit Research - 01 Jun 2015

London, 01 June 2015 -- Luxembourg's credit profile remains strong, in spite of economic uncertainties related to tax and regulatory reforms, says Moody's Investors Service in a report published today. The rating agency notes that Luxembourg (Aaa stable) benefits from a wealthy economy, robust growth prospects, as well as from a strong institutional framework.

Moody's annual Luxembourg Credit Analysis is available on www.moodys.com. Moody's subscribers can access this report via the link provided at the end of this press release. The rating agency's report is an update to the markets and does not constitute a rating action.

"Luxembourg benefits from a wealthy economy, solid institutions and very high fiscal strength, with low government debt and a long-standing track record of fiscal prudence and pro-active fiscal policies," says Kathrin Muehlbronner, a Senior Credit Officer at Moody's. "The country has one of the highest per-capita-incomes in our sovereign rating universe."

Luxembourg's debt burden -- at 23.5% of GDP in 2014 -- is low in comparison with Aaa-rated peers. It is even lower if the country's social security reserves of 28.5% of GDP are taken into account. These reserves could provide the government with a funding buffer during an unlikely period of financial market stress, adding to the strength of the government's balance sheet.

Financial services have been the key driver of Luxembourg's robust economic growth performance and are likely to remain the key sector of the economy for many years to come, in spite of efforts by the authorities to diversify Luxembourg's economy. The sector currently accounts for 27% of the country's gross value added, 12% of employment and 23% of government tax revenues.

The financial service sector is undergoing significant structural changes in the regulatory and supervisory framework, such as the end of bank secrecy as well as the advent of the euro area banking union and the establishment of the Single Supervisory Mechanism (SSM). These changes, in conjuntion with higher compliance costs, are likely to affect the profitability of the sector, according to the rating agency, and will lead to lower economic growth rates than in the past.

"However, we still expect that Luxembourg's real GDP growth will be robust in the coming years compared to euro area peers, at 3% for 2015 and 2016. The changes in the financial sector's regulatory and supervisory framework are also positive from a financial stability perspective," says Ms. Muehlbronner.

Another risk for Luxembourg's economic model and competitiveness is its vulnerability to changes in tax regulation at the EU and global level. However, Moody's believes that Luxembourg will remain an attractive business location, given the authorities' pro-active and business-friendly policies and the country's long-standing political and socical stability.

Subscribers can access the report at:

https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_181416

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