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NEWSLETTER

KEEPING UP WITH THE A'S : LUXEMBOURG RETAINS ITS FITCH AAA RATING

Luxembourg has again secured its AAA credit rating from Fitch rating agency, reflecting the country's disciplined fiscal management and low public debt. However, Fitch also identified certain financial vulnerabilities, particularly in the real estate market and household debt sector. These risks, it predicts, will be mitigated by Luxembourg's strong economic fundamentals, including high domestic savings and a resilient financial sector.

Fitch underscored Luxembourg's low public debt, which stands at 25.5% of GDP in 2023—substantially below the median debt level of AAA-rated countries (39.9% of GDP) and far beneath the eurozone average of 100.5% of GDP. Additionally, Luxembourg's central government cash reserves provide a significant liquidity buffer.

Fitch forecasts Luxembourg's real GDP to grow by 1.1% in 2024 and accelerate to 2.1% in 2025, driven by private consumption despite external economic pressures. Inflation is expected to rise from 2.2% in 2024 to 2.5% in 2025, influenced by the phasing out of public energy subsidies.

Luxembourg's high household debt levels and rising interest rates present potential risks, particularly in the property market. Despite these challenges, Fitch noted the banking sector's strong capitalization, which positions it well to absorb potential losses.

In summary, Luxembourg's strong fiscal position, low public debt, and resilient economic structure underpin its continued AAA rating and provide a solid foundation for stability and growth in the near future, albeit certain challenges should not be neglected.

Full Fitch's commentary may be consulted at www.fitchratings.com/.

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