

BEST'S COUNTRY RISK REPORT

Luxembourg CRT-1

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Luxembourg is a CRT-1 country with a low level of economic risk and very low levels of political and financial system risk.
- GDP growth was 3.5% in 2017, driven by domestic consumption and the net export of financial services. Medium-term GDP growth is expected to range between 3.0% and 4.0%.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. The notable exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, and Ukraine.



- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Western Europe

- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

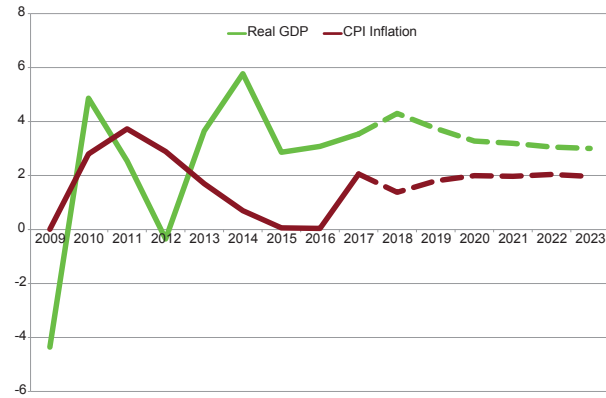
Vital Statistics 2017		
Nominal GDP	USD bn	62.39
Population	mil	0.6
GDP Per Capita	USD	105,803
Real GDP Growth	%	3.5
Inflation Rate	%	2.1
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	90.7
Dependency Ratio	%	43.6
Life Expectancy	Years	82.3
Median Age	Years	39.3
Insurance Statistics		
Insurance Regulator	Commissariat aux Assurances	
Premiums Written (Life)	USD mil	23,700
Premiums Written (Non-Life)	USD mil	3,727
Premiums Growth (2016 - 2017)	%	6.3
Regional Comparison		
	Country Risk Tier	
Luxembourg	CRT-1	
Belgium	CRT-1	
Denmark	CRT-1	
Germany	CRT-1	
Netherlands	CRT-1	
Norway	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Low

- Luxembourg, although the smallest member of the EU and the Economic and Monetary Union (EMU), is one of the wealthiest nations in the world. GDP per capita in 2017 was over USD105,000.
- Luxembourg's growth has surpassed the EU's general growth rate owing to its booming financial services sector, which accounts for more than 35% of GDP. However, growth could be dulled by uncertainty surrounding Brexit, a downturn in the global financial markets, or an increase in protectionist trade policies.
- Implementation of a comprehensive international tax transparency and anti-tax avoidance agenda also has the potential to cause volatility and uncertainty. Luxembourg is cooperating with other countries to fight against tax evasion and fraud.
- Despite a lack of natural resources, the country maintains a current account surplus, owing to its large surplus in services trade. Luxembourg's main trading partners include Germany and Belgium.

Political Risk Summary

Score 1 (best) to 5 (worst)

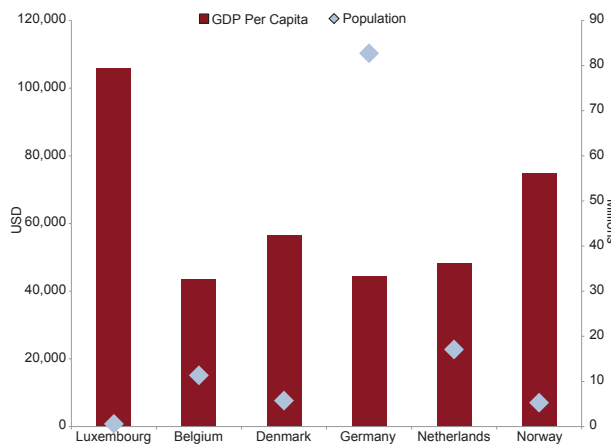


Source: A.M. Best

Political Risk: Very Low

- Luxembourg is a member of the European Union and one of the original 11 countries to adopt the euro as its currency in 1999.
- The government is structured as a constitutional monarchy, with a parliament headed by the prime minister. There is a clear separation of power among the judicial, legislative, and executive branches of government. The next general election is scheduled for October 2018.
- Containing costs and budgetary pressures over the long term will require further pension and social spending reforms.
- Governmental policies are focused on attracting additional foreign direct investment. Favorable tax policies, combined with Luxembourg's well developed legal system, minimal corruption, and government stability, create a conducive business environment. However, recent efforts to enhance the tax system's transparency may deter some companies.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very Low

- The insurance industry is regulated by the Commissariat aux Assurances, and the main industry association is L'Association des Compagnies d'Assurances (ACA).
- The banking sector is characterized by strong capitalization and liquidity, and asset quality is high. However, domestic loans are concentrated in the real estate market and their close monitoring should continue.
- Despite the banking system's relative strength, the IMF has recommended dedicating additional resources to financial services oversight, firming up resolution planning, and making supervision more risk-oriented.
- Luxembourg's monetary policy is dictated by the European Central Bank.