



LUXEMBOURG

June 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LUXEMBOURG

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Luxembourg, the following documents have been released and are included in this package:

- A **Press Release**, summarizing the views of the Executive Board as expressed during its June 22, 2026 consideration of the staff report that concluded the Article IV consultation with Luxembourg.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 22, 2026, following discussions that ended on May 6, 2026, with the officials of Luxembourg on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 3, 2026.
- An **Informational Annex** prepared by the IMF staff.
- **Staff Statement**.
- A **Statement by the Executive Director** for Luxembourg.

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IMF Executive Board Concludes 2026 Article IV Consultation with Luxembourg

FOR IMMEDIATE RELEASE

- While strong fundamentals, such as low public debt, will continue to cushion the economy against shocks, economic growth has been tepid and uneven with a softening labor market, amid a worsening fiscal balance, rising inflationary pressures, and heightened uncertainty from the war in the Middle East.
- The fiscal deficit is expected to widen further under current policies amid structural increases in spending and a softening revenue growth. A moderate fiscal adjustment focusing on containing current expenditure is needed to preserve buffers, stabilize public debt and create room for growth-enhancing investment over the medium term.
- The financial system has continued to demonstrate resilience to elevated market stress episodes. Rising uncertainty and geopolitical risk require continued close monitoring of liquidity, leverage and funding in the multifaceted financial system.

Washington, DC – June 30, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Luxembourg.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.

Luxembourg’s economy has yet to regain its past dynamism with growth lagging peers and the public sector playing a dominant role. Growth edged up to 0.6 percent in 2025, supported by expansionary fiscal policy and real income gains, while weak external demand continued to be a drag. The labor market has softened, with unemployment rising above 6 percent. Headline inflation rose above 2.5 percent in early 2026 due to higher energy prices, despite new electricity subsidies. The fiscal balance deteriorated sharply in 2025 as spending significantly outpaced revenue. The financial system has remained resilient, and banks and non-banks maintain high capital and liquidity buffers. Asset quality in the corporate sector is gradually improving, with remaining pockets of vulnerability from the real estate sector.

Growth is projected to remain moderate amid uncertainty from the war in the Middle East and domestic constraints. The growth momentum would be dampened by the expected slowdown in European trading partners, headwinds from weaker confidence and higher inflation, while strong public spending and solid private consumption would provide support. Against this backdrop, GDP growth is projected at 1.2 percent in 2026 and to pick up to 1.7 percent in 2027 as the impact of the conflict wanes. Growth is expected to gradually

¹ Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

converge toward potential (around 2 percent) over the medium term as external demand recovers and private investment strengthens. Inflation is forecast to rise to 2.6 percent in 2026, driven by higher energy prices, automatic wage indexation, and second-round effects, before easing toward 2 percent in the medium-term. The outlook faces significant downside risks, including from a prolonged conflict, persistently high energy prices, weaker EU growth, financial market stress, and domestic challenges in the construction sector and the labor market. On the upside, faster progress on EU single market reform could strengthen growth prospects.

Executive Board Assessment²

Executive Directors noted that strong fundamentals, including low public debt and a resilient financial sector, provide buffers against downside risks, including from heightened global uncertainty. At the same time, they emphasized the need for careful policy recalibration to unlock private-sector led growth and help Luxembourg's economy regain its past dynamism.

Directors considered the broadly neutral fiscal stance in 2026 appropriate but emphasized that the composition of spending should become more growth-friendly and the energy support measures more targeted to vulnerable groups. They generally stressed that the projected medium-term weakening in fiscal balances amid rising spending pressures calls for a moderate fiscal adjustment to preserve buffers, stabilize public debt, and create room for priority investment.

Directors highlighted the need to contain current expenditure, improve spending efficiency, and broaden the tax base. They welcomed the recent pension reform and noted that the planned income tax reform could support labor supply, while underscoring the importance of offsetting measures to contain its fiscal cost. Directors also encouraged strengthening the fiscal framework, including through an enhanced national fiscal rule and stronger fiscal risk analysis.

Directors agreed that Luxembourg's financial system has remained resilient and commended the authorities for close oversight and strong fundamentals in the bank and non-bank sectors. At the same time, pockets of vulnerability remain, and elevated uncertainty, including due to geopolitical risks, require continued vigilance given Luxembourg's large, outward-oriented, and highly interconnected financial sector. Directors called for continued close monitoring and proactive management of liquidity, leverage, funding, and concentration risks across banks, investment funds, and insurers, and welcomed good progress in implementing the 2024 FSAP recommendations. As the financial cycle enters an early expansion phase, Directors supported further recalibration of the macroprudential

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

framework.

Directors underscored that structural reforms are critical to revive productivity and competitiveness, and rebalance growth toward the private sector. They encouraged the authorities to accelerate digital and AI adoption, strengthen support for innovation, and address skill mismatches through education, reskilling, and upskilling policies. Directors also stressed the importance of increasing labor market flexibility, easing housing pressures through supply-side reforms and land mobilization, and reducing administrative and regulatory burden on firms. They noted that energy diversification and deeper EU single market integration, including progress on the Savings and Investment Union, would further strengthen Luxembourg's medium-term growth prospects.

Table 1. Luxembourg: Selected Economic Indicators, 2024–28

	2024	Est. 2025	Proj.		
			2026	2027	2028
Real Economy (percent change)					
Gross domestic product	0.4	0.6	1.2	1.7	2.1
Total domestic demand	2.5	2.0	1.5	2.5	2.2
Private consumption	3.2	2.2	2.0	2.1	2.1
Public consumption	4.9	3.7	2.6	2.5	2.2
Gross investment	-2.0	-1.2	-0.8	3.7	2.2
Foreign balance 1/	-1.1	-0.7	-0.5	-0.1	0.6
Exports of goods and nonfactor services	-12.2	1.2	-1.4	2.2	2.0
Imports of goods and nonfactor services	-13.6	1.8	-1.4	2.6	2.0
Labor Market (thousands, unless indicated)					
Unemployed (average)	18.0	19.0	20.0	21.0	21.2
(Percent of total labor force)	5.7	6.0	6.2	6.4	6.4
Resident employment	295.6	299.2	304.0	307.8	312.8
(Percent change)	0.9	1.2	1.6	1.3	1.6
Total employment	516.0	522.2	528.4	535.4	544.5
(Percent change)	1.0	1.2	1.2	1.3	1.7
Prices and Costs (percent change)					
GDP deflator	4.6	3.2	3.3	2.3	2.1
CPI (harmonized), p.a.	2.3	2.5	4.3	2.0	2.1
CPI core (harmonized), p.a.	2.5	1.8	1.8	2.1	1.9
CPI (national definition), p.a.	2.1	2.3	2.6	2.3	2.1
Public Finances (percent of GDP)					
General government revenues	47.7	47.1	46.9	47.2	46.4
General government expenditures	46.8	49.1	48.8	49.2	49.3
General government balance	0.9	-2.0	-1.9	-2.0	-3.0
General government structural balance	0.0	-2.5	-2.3	-2.5	-3.4
General government gross debt	26.3	26.5	28.2	29.8	32.0
Balance of Payments (percent of GDP)					
Current account	7.1	5.3	4.7	4.4	4.3
Balance on goods	2.0	2.1	2.1	2.1	2.1
Balance on services	36.3	33.8	35.1	35.4	35.3
Net factor income	-30.6	-29.9	-31.8	-32.3	-32.4
Balance on current transfers	-0.6	-0.7	-0.7	-0.7	-0.7
Exchange Rates, Period Averages					
U.S. dollar per euro	1.08	1.13	...	...	...
Nominal effective rate (2010=100)	106.3	107.8	...	...	...
Real effective rate (CPI based; 2010=100)	98.6	99.5	...	...	...
Credit Growth and Interest Rates					
Nonfinancial private sector credit (eop, percent change) 2/	-5.3	0.8	5.0	4.5	4.7
Government bond yield, annual average (percent)	2.7	2.9	...	...	...
Potential Output and Output Gap					
Output gap (percent deviation from potential)	-0.5	-0.7	-0.5	-0.2	0.0
Potential output growth	0.7	0.8	1.0	1.4	1.9

Sources: Luxembourg authorities; IMF staff estimates and projections.

1/ Contribution to GDP growth.

2/ Including a reclassification of investment companies from financial to non-financial institutions in 2015.



LUXEMBOURG

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

June 3, 2026

KEY ISSUES

Context. Luxembourg's economy has yet to regain its past dynamism, with growth lagging peers and the public sector playing a dominant role. Strong fundamentals, including low public debt and a resilient financial sector, provide buffers against shocks, but reigniting growth will require policy recalibration to unlock private-sector-led growth anchored in innovation and productivity.

Outlook and risks. Growth is projected to remain moderate though gaining pace. Elevated global uncertainties, alongside persistent competitive pressures, would constrain growth and employment, increase financial sector risks, and add to revenue uncertainties. Faster-than-expected progress on EU-wide reforms could boost growth.

Fiscal policy. Following a deterioration in 2025, the deficit is expected to widen further over the medium term amid revenue slowdown and rising current expenditure. A moderate fiscal tightening is needed to preserve buffers given fiscal risks and stabilize public debt. This requires containing current expenditure, improving efficiency, and broadening the tax base. If risks materialize, automatic stabilizers should be allowed to work. The decision to use fiscal space should reflect a cost-benefit analysis weighing gains from productivity-enhancing investment against reduced buffers and a higher interest bill. Pension and income tax reforms are welcome, while strengthening the fiscal framework would mitigate risks and support long-term sustainability.

Financial sector. The financial system shows resilience to elevated uncertainty and market stress, with high capital and liquidity buffers for banks and non-banks. Asset quality in corporate sector is gradually improving, and real estate market risks have eased with a recovery in residential and commercial segments. But rising uncertainty and geopolitical risk require monitoring of liquidity, leverage, and funding in the multifaceted financial system. As the financial cycle enters an early expansion phase, a gradual tightening of macroprudential policy is recommended, focusing on enhancing releasable capital buffers and implementing income-based measures.

Structural policy. To rebalance the economy towards private sector-led growth centering on reviving productivity, policies should focus on increasing labor market flexibility, raising labor supply, addressing skill mismatch, strengthening support for innovation and accelerating AI technology adoption. Addressing housing affordability and regulatory bottlenecks would ease cost-of-living pressures. Advancing single market reform at EU level would strengthen growth prospects.

Approved By
Kristina Kostial (EUR)
and Natalia Tamirisa
(SPR)

Discussions took place during April 23–May 6, 2026. The team comprised A. Shabunina (Head), S. Armendariz, X. Fang, M. Jarmuzek (all EUR), and was assisted by C. Li and V. Timonova. Messrs. Clicq and Englaro (both OED) joined some meetings. The mission met with Minister of Finance Roth, Governor Reinesch, Minister of Interior Affairs Gloden, other officials, and representatives from the private sector and civil society.

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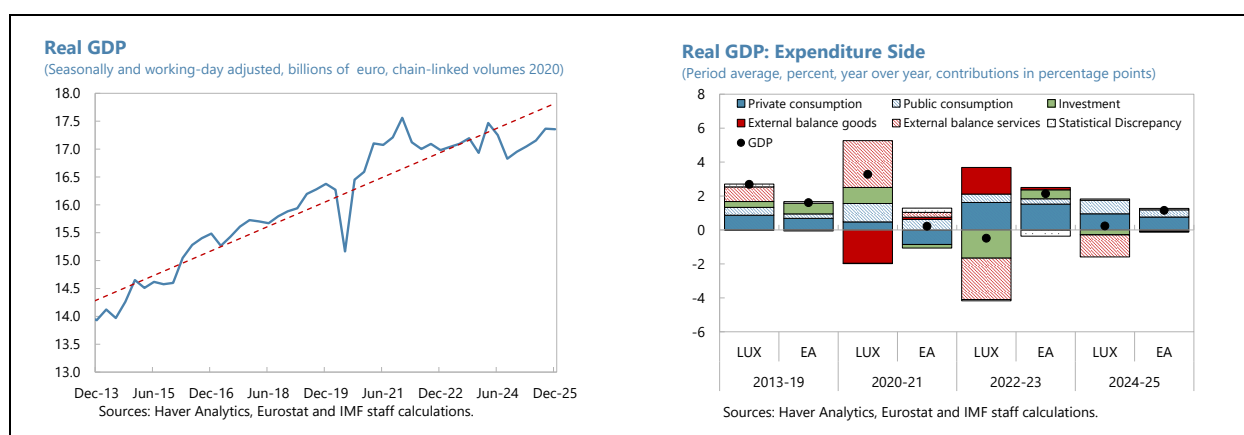
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CONTEXT

1. The Luxembourg economy is yet to regain its past dynamism. Following a strong post-pandemic recovery in 2021, economic growth has been stagnating and lagging euro area peers since 2022, with the output level below its long-term trend. Growth has increasingly been driven by the public sector, masking underlying weakness in private activity, reflecting a combination of cyclical headwinds—including the construction sector downturn, post-pandemic adjustments in ICT, and subdued external demand—and structural constraints, notably subdued productivity and weak investment by nonfinancial corporates. While the real estate sector shows tentative signs of recovery, supported by easing financial conditions and policy measures, persisting vulnerabilities impede a stronger rebound.

2. Government support has cushioned the economy against successive shocks, but a larger role for the private sector would be essential going forward. Multiple fiscal measures played an important role in smoothing income and employment during the pandemic, energy crisis, and sharp downturn in housing sector. However, as many temporary measures turned permanent, the expanding role of the public sector could risk crowding out private investment and employment, while weakening incentives for resource reallocation toward more productive sectors. Continued reliance on public spending as a growth engine is not sustainable, particularly given rising structural spending needs, including from demographic pressures.



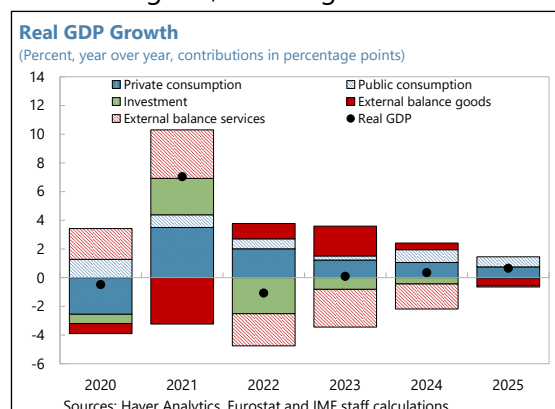
3. Strong fundamentals will help weather adverse shocks, but reigniting private-sector-led growth will require a recalibration of policies. Low public debt and a resilient financial sector provide sound buffers against new shocks. Healthy household balance sheets will underpin resilient private consumption. However, rising labor cost, declining productivity and elevated housing prices present potential obstacles to sustaining the rapid labor force expansion that propelled Luxembourg's fast growth in the past. The government has appropriately enacted pension reform and is planning individual taxation reform aiming to boost labor supply. However, uncertainties regarding labor demand persist, largely due to significant skill mismatches and the predominant influence of public sector employment. To revive economic growth, it is essential to prioritize

policies that support a transition toward new growth drivers centered on innovation and productivity gains.

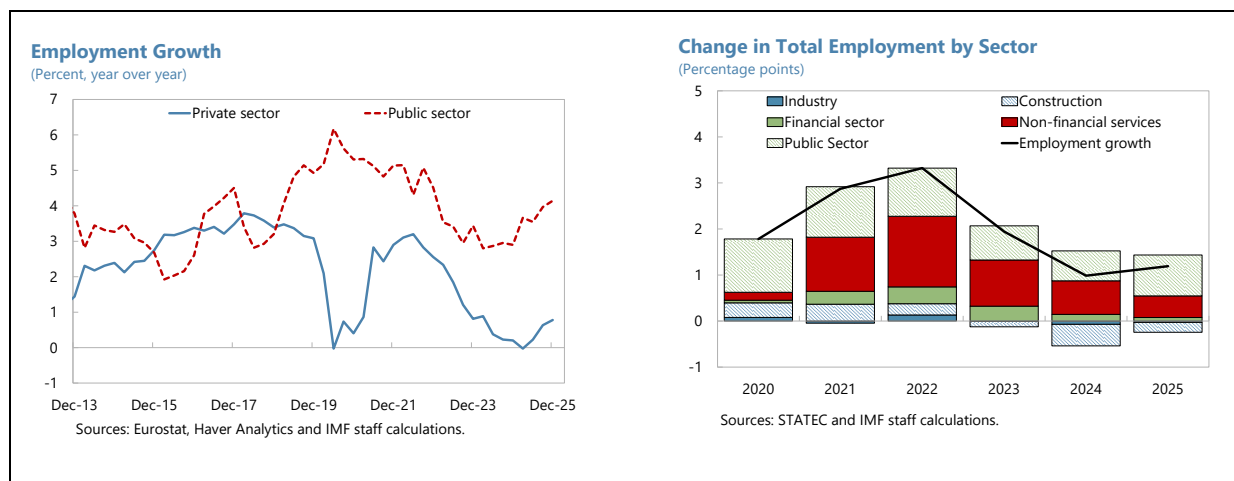
RECENT DEVELOPMENTS AND OUTLOOK

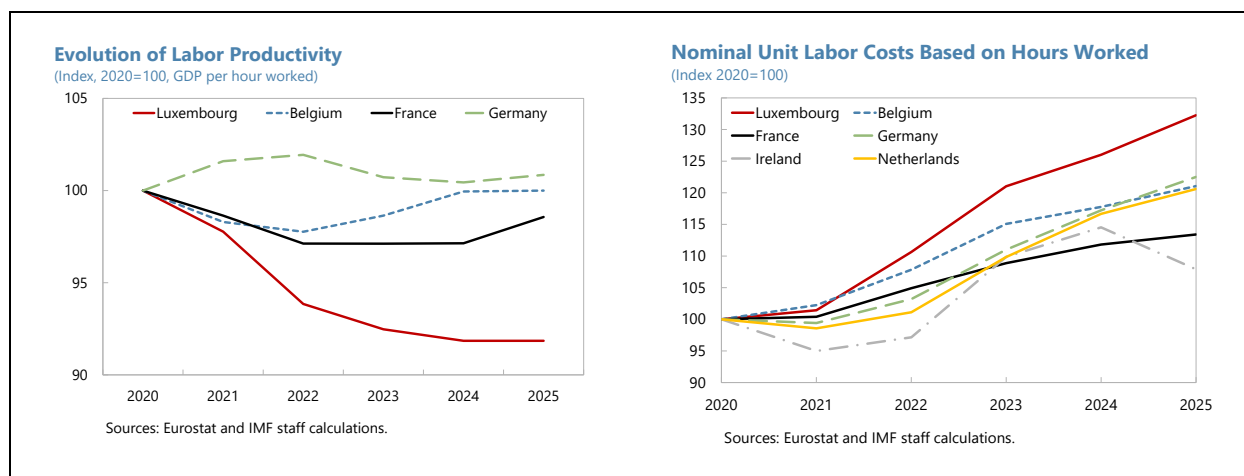
A. Recent Developments: Sluggish Growth Led by Public Sector

4. Growth remained subdued in 2025. After expanding by 0.4 percent in 2024—well below Luxembourg’s 10-year average of 1.9 percent — activity edged up to 0.6 percent in 2025. Domestic demand, supported by expansionary fiscal policy and real income gains, is driving this modest recovery, while external demand continues to weigh on growth. Investment rebounded strongly in late-2025 on the back of large government purchases, also benefitting from a lower drag from construction as new dwellings activity turned positive after a prolonged downturn. Sectoral trends remain uneven, with elevated volatility in ICT and other non-financial services weighing on domestic production and service exports, in part reflecting emerging competitiveness concerns.



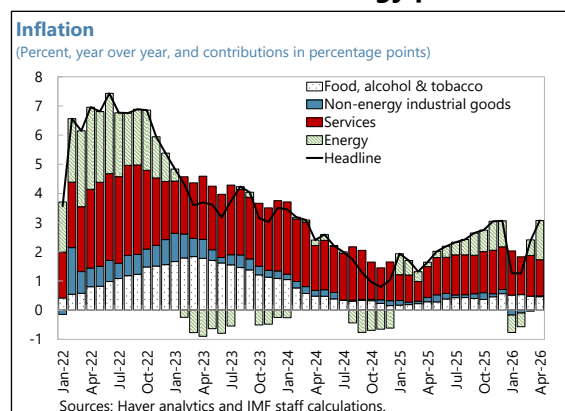
5. The labor market slack persisted. Employment gains concentrated in the public sector—accounting for $\frac{3}{4}$ of the increase—while private sector employment remained subdued, though the drag from construction was less pronounced. Meanwhile, the expansion of the labor force outpaced employment growth, leading to a further increase of the unemployment rate to 6.1 percent at end-2025. This trend has accelerated in the first quarter of 2026, with unemployment reaching 6.3 percent. Productivity growth remained weak and below historical levels, keeping unit labor costs elevated.





6. Inflation rose modestly in 2025 and accelerated in 2026 due to the energy price shock.

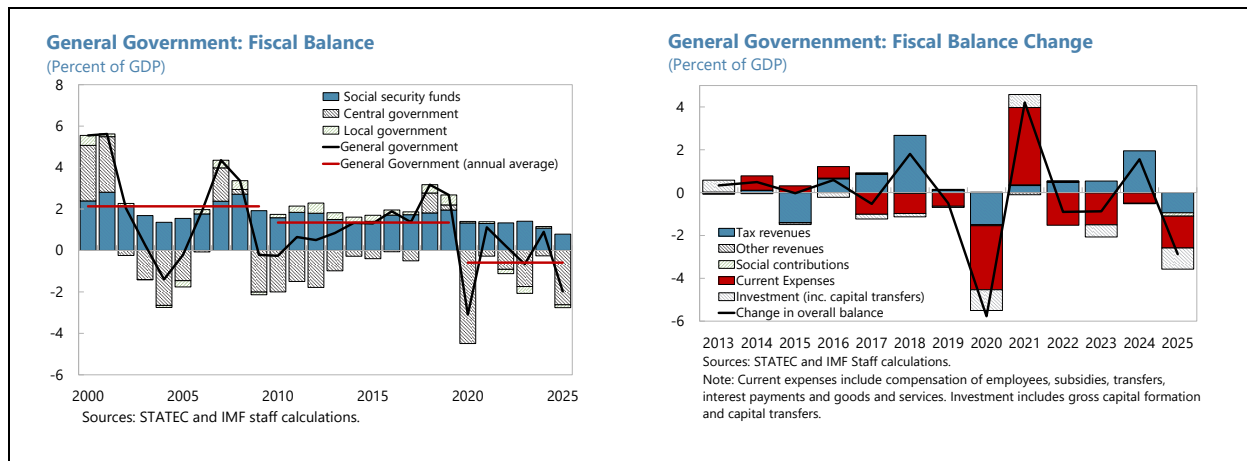
Headline inflation increased to 2.3 percent in 2025 from 2.1 percent in 2024, driven by higher food and energy prices following the phase-out of energy subsidies. At the same time, core inflation eased to 1.8 percent in 2025, despite a push-up by the automatic wage indexation in May. In early 2026, headline inflation eased to 1.3 percent following the introduction of a new electricity grid subsidy in January (¶14), but surged to 3.1 percent in April driven by the spike in fuel prices.



7. The fiscal balance deteriorated more than expected in 2025 as expenditure significantly outpaced revenue. The spending bill increased notably (+8.8 percent y-o-y), driven by substantially higher-than-budgeted capital spending, an increase in public wages (beyond the automatic wage indexation) and rising social benefits.¹ Meanwhile, revenue growth slowed to 2.5 percent y-o-y, from around 10 percent in 2024, due to reduced CIT windfalls and lower PIT following a tax-bracket adjustment and labor market softening. The general government fiscal balance² turned from a surplus of around 1 percent of GDP in 2024 to a deficit of 2 percent of GDP in 2025, while public debt remained low, at 26.5 percent of GDP at end-2025.

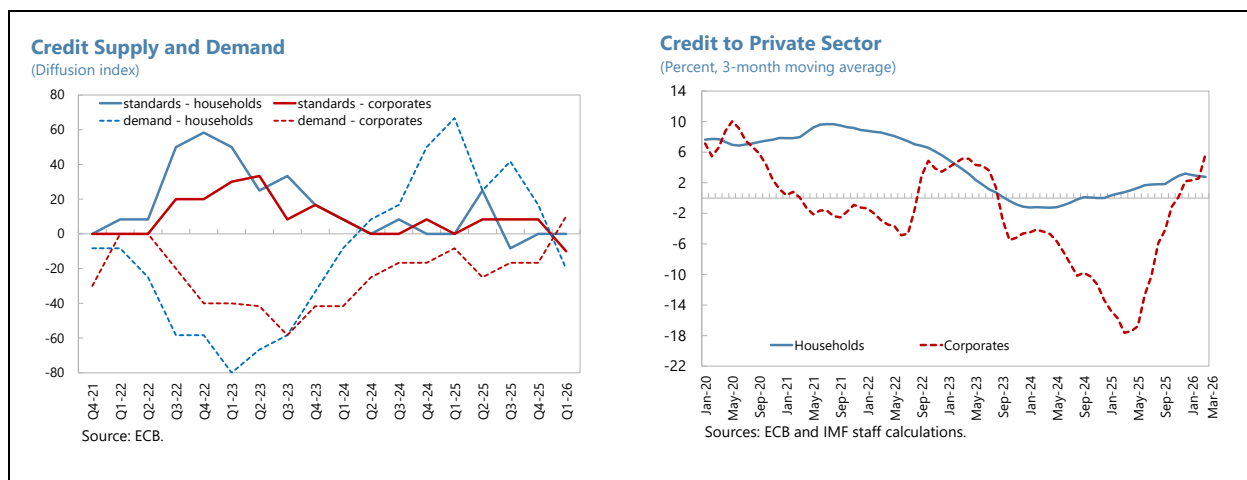
¹ See [Luxembourg 2025 Article IV Staff Report](#) Table 1.

² The general government balance is equal to the sum of balance in central government, local governments and the social security fund.



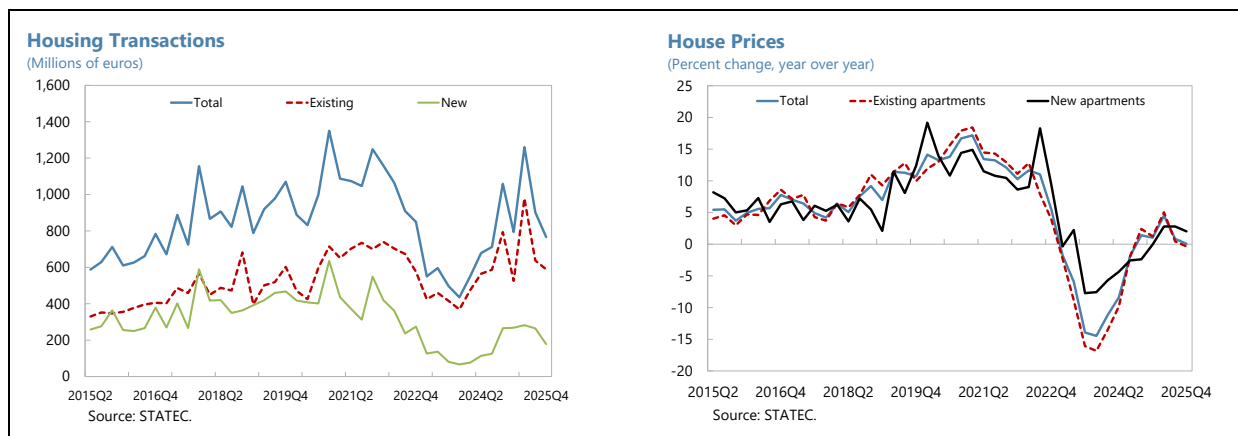
8. The financial cycle has turned into a nascent expansionary phase.

- Credit cycle.** Amid declining interest rates and some relaxation of credit standards, credit demand increased, particularly from households, further supported by fiscal measures. While credit to both households and corporates continued recovering, the rebound was uneven, with corporate sector borrowing picking up later in the cycle, likely reflecting elevated economic uncertainty. According to estimates, the credit gap has narrowed further, with some estimates suggesting it may have turned positive.

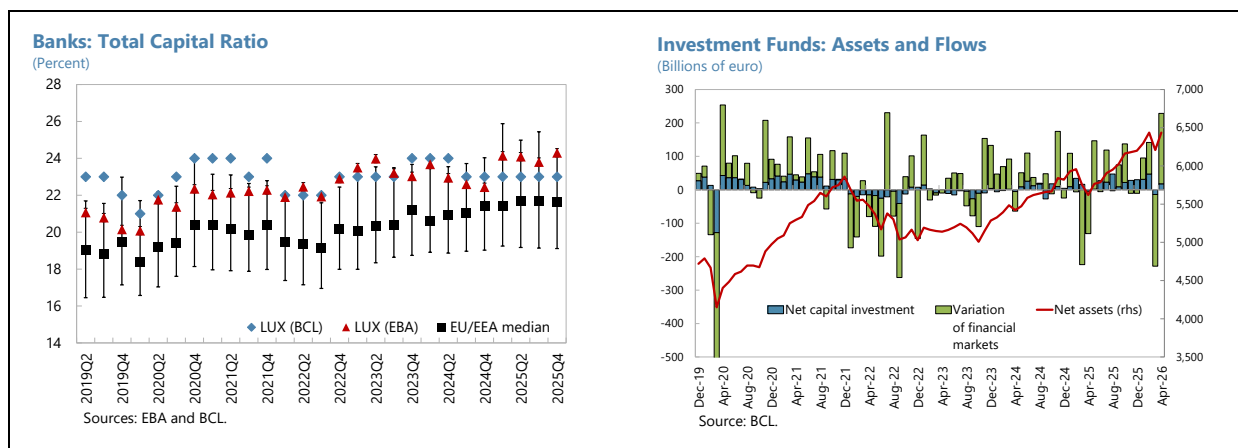


- Real estate cycle.** Prices and transactions in the residential segment recovered from the recent downturn, benefiting from lower interest rates and laxer bank credit standards, and substantial fiscal support (including a reduction in the registration rate and an increase in mortgage deductibility).³ According to the authorities' and IMF model-based estimates, price overvaluation has declined to a broadly neutral level. The commercial segment also entered an early recovery phase, as evidenced by rising market activity, transactions, and prices.

³ For more details, see [Luxembourg 2025 Article IV Staff Report](#) Table 1.



9. The financial system has weathered elevated uncertainty and financial stress well. Banks remain highly capitalized and liquid, well above regulatory minima, with a relatively low aggregate NPL ratio. However, some pressure on asset quality persists, reflecting the slow recovery in the real estate and construction sectors. Bank profitability has likely passed its peak and remains slightly below peers, reflecting the high cost of the banking business model, particularly operational expenses owing predominantly to high personnel costs. Insurance companies are also well capitalized and liquid, though below peers, with some recent recovery in market expansion and profitability. While investment funds experienced outflows following the April 2025 tariff announcement and at the beginning of the war in the Middle East, confidence and inflows have since returned, confirming resilience demonstrated in previous stress episodes.



10. Luxembourg’s external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies, but the assessment is subject to several limitations.⁴ The current account surplus fell to 5.3 percent of GDP in 2025, mainly driven by net factor income. While the EBA-lite model only partially captures Luxembourg’s specific economic features (a large financial center and a large share of commuters in the workforce)—generating large residuals—and does not take into account the country’s long-term fiscal sustainability challenges due to aging

⁴ Data show a substantial inconsistency between the balance of services in the national accounts and in the BOP, which may suggest future revisions.

costs, Luxembourg's external position is assessed to be aligned with the level implied by medium-term fundamentals and desirable policies, with the current account gap estimated at 0.5 percent of GDP.

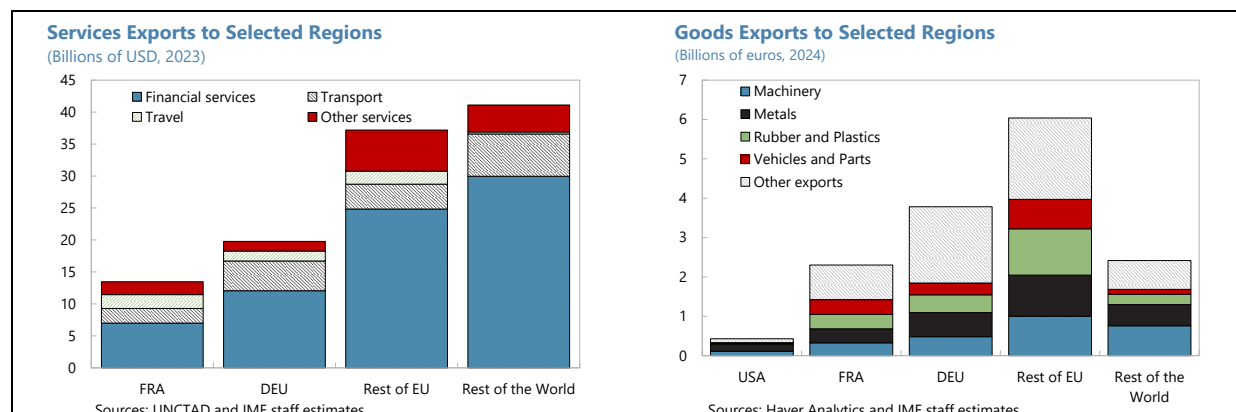
B. Outlook and Risks

11. The war in the Middle East is weighing on the outlook; against this backdrop,⁵ growth is projected to remain moderate though gaining pace. Although positive spillovers from Germany's fiscal stimulus could offer some support, the slowdown in other trading partners would largely mute the contributions of net exports. Private consumption is expected to remain solid, supported by real income growth. While elevated uncertainty arising from the war would weaken private investment, this could be partially offset by strong public capital expenditure – along with a recovery in the construction sector. Growth is projected to increase to 1.2 percent in 2026 and pick up to 1.7 percent in 2027 as the impact of the conflict wanes, then gradually converge to its potential as external demand recovers and private investment strengthens. Inflation is projected to exceed 2 percent in 2026–27, as rising energy prices and second-round effects more than offset the disinflationary impact of new electricity subsidies introduced earlier this year. It is forecasted to gradually converge to 2 percent in the medium term.

12. Heightened global uncertainty clouds the outlook with downside risks prevailing.

- *Externally*, weaker-than-expected growth in key European partners or a sharp global slowdown would dampen external demand for Luxembourg's goods and services. Renewed energy market volatility triggered by the prolonged conflict in the Middle East could weigh on confidence (Box 1), widen risk premium, and pose further risks to inflation. Given the large size and cross-border orientation of the investment fund sector in Luxembourg, this could create a significant adverse feedback loop with further market repricing, liquidity drying up, higher volatility, and tighter financial conditions. That said, the negative impact could be partly cushioned by the faster-than-expected progress in EU single market reform, including from a diversification of European energy sources.
- *Domestically*, persistent competitiveness pressures from rising labor costs, slower productivity gains, and prolonged softness in the labor market could constrain investment and hiring. Delays in the construction sector recovery would pose additional risks to domestic demand growth.

⁵ The baseline scenario assumes energy pricing as indicated in the futures curve as of the beginning of May 2026.



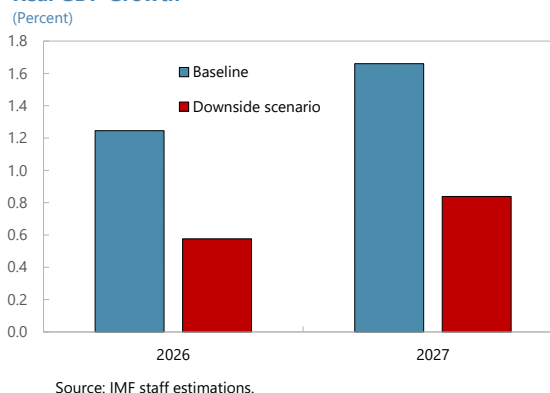
Box 1. Luxembourg: Impact of External Headwinds

Under an illustrative sensitivity analysis (calibrated based on the April 2026 WEO severe scenario), the combined effect of higher energy and food prices, second-round effects and risk-off would imply a decrease in Luxembourg's growth by about 0.6 percentage point (pp) in 2026 and 0.9 pp in 2027 relative to staff's baseline, while annual inflation could be 2 and 3 pp higher. Elevated energy prices could cause sharp slowdown in trading partners, reducing demand for Luxembourg's exports of goods and services.

Intensification of conflict would also trigger asset price corrections, tighter financing conditions and reduced risk appetite, further weighing on growth. Additionally, subdued external demand could increase unemployment and reduce fiscal revenue, while heightened financial market volatility would compress financial sector profitability and lead to lower revenues. Allowing automatic stabilizers to fully work while maintaining the recommended structural effort is projected to lead to a deficit increase of about 0.8 percent of GDP in 2026–27 annually and an increase in public debt (around 2.5 percent of GDP by 2031). While new energy support measures are not recommended, temporary and targeted discretionary measures to support vulnerable groups may be used if necessary.

Prudential policies could help mitigate the impact. While banks have large management capital buffers to absorb substantial stress, utilizing releasable capital buffers along with restricting dividend payouts would further help preserve resilience. Investment funds should use a broad set of liquidity management tools to mitigate liquidity pressures and help prevent setting in motion an adverse feedback loop between investment funds and other segments of the financial sector.

Real GDP Growth



Authorities' Views

13. The authorities broadly agreed with the assessment of economic performance and outlook. They concurred that the economy has been underperforming its historical average in recent years, which may partly reflect structural factors. They agreed that the construction sector is showing early signs of recovery, while highlighting the binding constraints on constructable land

supply. Looking forward, they expected growth to strengthen as external demand stabilizes and domestic consumption remains solid. The authorities agreed on a number of downside risks, including heightened uncertainty, persistent energy price pressures, and strains affecting the construction sector.

POLICY DISCUSSIONS

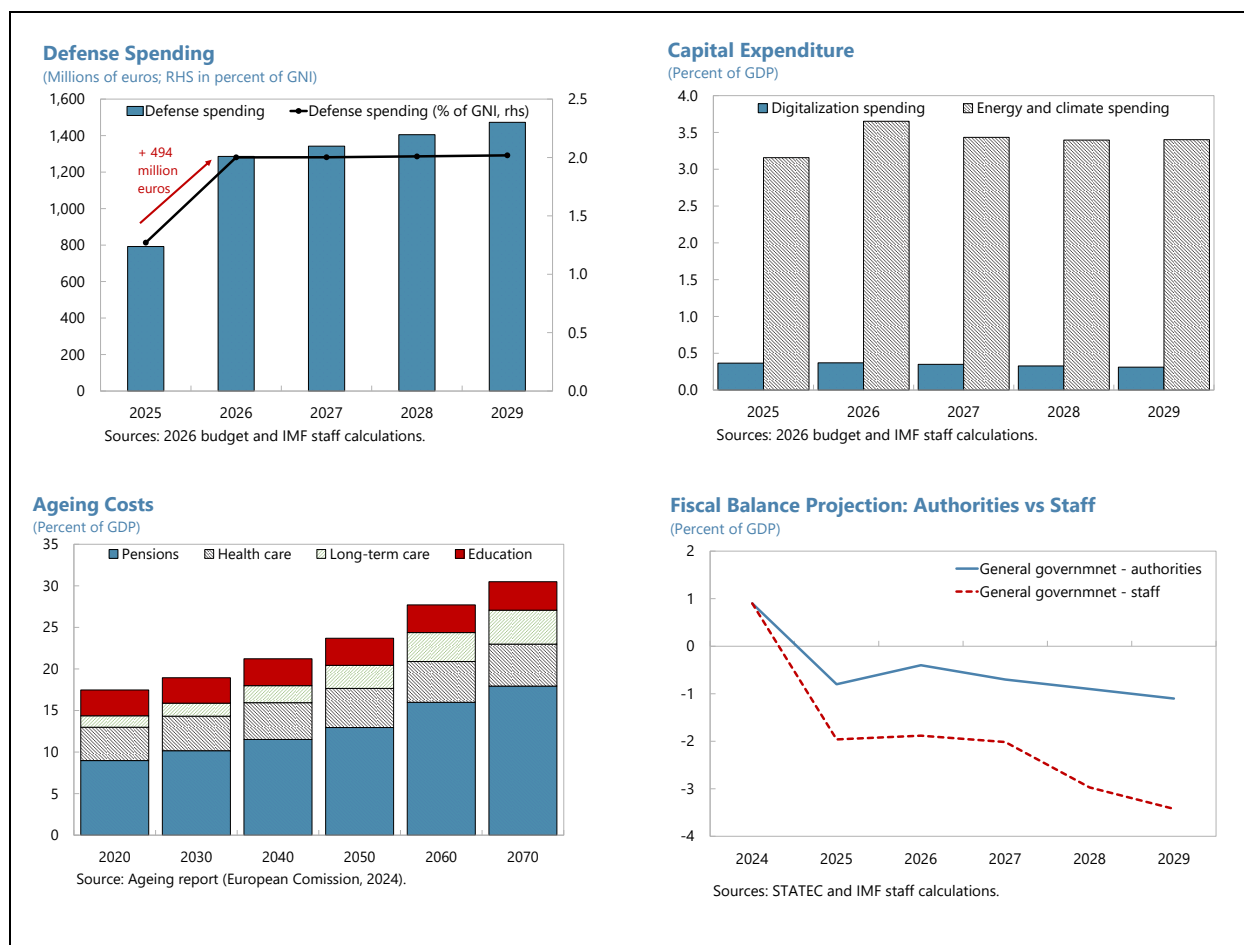
A. Fiscal Policy: Safeguarding Fiscal Space and Improving Efficiency

14. A broadly neutral fiscal position in 2026 is appropriate following the notable deterioration last year, but the expenditure composition could be more growth friendly. The 2026 budget kept the cost-of-living allowance from 2025, and introduced new social support measures, including an electricity grid subsidy of around 0.2 percent of GDP. These measures, along with higher defense expenditure⁶ and an elevated public wage bill, are projected to be broadly offset by nominal revenue gains and keep the general government deficit at 1.9 percent of GDP. However, a rebalancing toward more growth-enhancing investment spending would have been preferable. The continued increase in current spending needs to be contained to accommodate investment needs in housing, AI, digitalization, energy and climate.

15. The fiscal balance is projected to deteriorate over the medium term, exceeding 3 percent of GDP in 2029. Expenditure is forecast to increase by 2.2 percent of GDP over the medium term, due to higher spending on social protection, increased interest payments, and aging-related health and pension expenses (see also ¶18). Defense spending is expected to remain above 2 percent of GNI. Meanwhile, the drivers of the recent revenue gains—the financial sector’s outperformance and a rising labor income share—are expected to wane, with tax buoyancy gradually reverting to historical averages. Additionally, the planned single class income tax reform,⁷ together with an enhanced family and child allowance and the childcare service voucher (CSA) system reform, is estimated to cost around 1.5 percent of GDP annually (Annex V), though PIT revenue is projected to gradually recover along with nominal wage increase. Staff’s baseline contrasts with the authorities’ medium-term fiscal structural plan (MTFSP), which anticipates a smaller increase of overall deficit of less than 1 percent of GDP by 2029, based on more optimistic revenue assumptions. The MTFSP estimate also does not yet account for the impact of income tax reform and additional support measures.

⁶ Defense spending is expected to be increased by around 500 million euros to reach the 2 percent of GNI target in 2026.

⁷ This reform is to create a single tax class, replacing the current system of multiple tax classes and joint taxation for married couples and registered partners. Under the new regime, all taxpayers would be taxed on an individual basis, regardless of marital status.



16. Staff recommend moderate fiscal tightening over the medium term to stabilize debt and preserve buffers against fiscal risks, while accommodating growth-friendly investments.

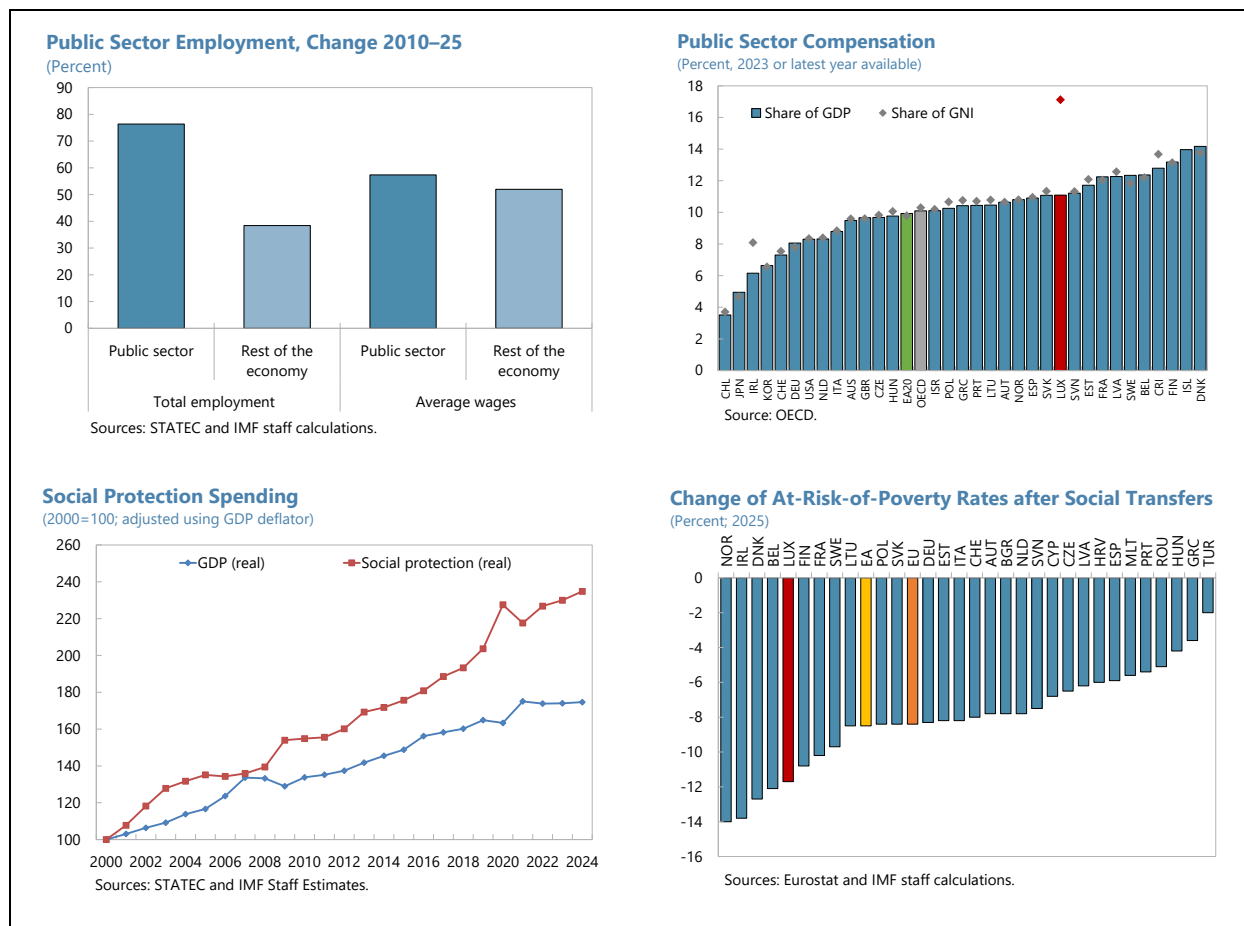
Staff's baseline forecast is subject to revenue uncertainties, arising from concentrated tax base, EU legislative change on excise taxes, and increasing volatility in external demand.⁸ Additional pressure could emerge from introducing new energy support measures and further increase in defense spending. Having fiscal space does not warrant an expansionary fiscal stance given rising fiscal risks, particularly from revenue volatility. Instead, decisions to use it should reflect a cost-benefit analysis on growth and welfare gains from cost-efficient, productivity-enhancing investment against reduced fiscal buffers, a higher interest burden, and the impact on the private sector. Under the baseline, the projected increase in public debt from 26.5 percent in 2025 to above 39 percent of GDP by 2031 is mostly driven by the rise in current expenditure. Staff recommends a moderate fiscal adjustment to stabilize debt over the medium term. For instance, stabilizing public debt at around 33 percent of GDP by 2031 would require an annual fiscal effort of 0.5 percent of GDP in 2027–30.⁹ The

⁸ For more details, see [Luxembourg 2025 Article IV Staff Report](#) Box 2.

⁹ In 2023, Luxembourg officially dropped its long-standing commitment to keep public debt below 30 percent of GDP, which was previously deemed important to maintain the country's AAA rating. However, it remains an implicit anchor, including in public communication as a debt limit and the medium-term debt projection in the budget has

(continued)

consolidation path could be calibrated based on the cyclical position of the economy and supported by an effective fiscal rule (¶120). In the event of a sharp downturn, the authorities should allow the sizable automatic stabilizers to work and could consider temporary and targeted discretionary measures.



17. Fiscal adjustment could be achieved mostly through containing current spending, as well as efficiency gains and revenue diversification.

- *On expenditure*, containing wage-bill growth, notably by slowing public-sector hiring that has outpaced the rest of the economy, could generate sizable savings. For instance, maintaining the wage bill at its 2020–24 average could save about 1 percent of GDP. Despite large social protection spending, poverty reduction lags peers that spent less, indicating that improving targeting, including through further means-testing for social benefits, could yield efficiency gains. Additional gains could come from further enhancing spending efficiency of capital expenditure, which could be aided by the planned IMF PIMA assessment.

been always kept below that level. For example, stabilizing debt around 30 percent of GDP by 2031 would require an annual fiscal effort of 0.7 percent of GDP in 2027–30.

- *On revenue*, broadening the tax base, including through higher property and environmental taxes, streamlining tax-benefit system would raise revenue while enhancing fairness. Staff welcome introducing a single tax class as it is expected to reduce disincentives to labor participation among household second earners. The proposed introduction of indexation of income tax brackets will also help prevent inflation from pushing taxpayers into higher tax brackets (Annex V). Overall, the reform alone is expected to cost around 1 percent of GDP annually starting from 2028, adding to growing fiscal pressures. Staff recommend identifying offsetting measures to mitigate the revenue loss.

18. The 2026 pension reform is a timely and welcome step to improve the social security balances; however, it is insufficient to ensure long-term sustainability. The main measures of pension reform include: i) maintaining the retirement age at 65 with an increase in the social security contribution rate from 24 to 25.5 percent and equally shared among employees, employers, and the state; ii) introduction of a tax credit for workers not taking early retirement; iii) an extension of the contribution period required for early retirement by eight months over five years; iv) recognizing up to 9 years of study/training periods flexibly; v) introduction of a progressive pension in the general pension scheme for the private sector to incentivize the combination of work income with a pension benefit. The reform has a positive impact on the general government balance of around 0.4 percent of GDP and delays depletion of pension reserve fund by 4 years to 2048. While the reform fell short of fully addressing long-term sustainability, it sets up a framework facilitating future adjustments.

19. Rising medium-term spending pressures and a weakening structural balance underscore the need for a strengthened fiscal rule to better anchor policy. National fiscal rules would improve policy predictability, especially in a small, open economy with a global financial sector subject to external shocks. Staff propose combining a debt anchor with an operational fiscal rule based on fiscal balances or expenditure limits. The operational rule should be designed to allow flexibility to absorb shocks (e.g., exclude automatic stabilizers) and accommodate investment needs. The rule should also be made legally binding and incorporate flexibility through escape clauses that are in line with the EU framework. In parallel, it is key to strengthen the fiscal council's capacity and role in macro-fiscal forecasting, risk analysis, and debt sustainability assessment.

20. The budgeting framework needs to be strengthened. Further improving fiscal reporting and government finance statistics is important. Given large lags in corporate tax collection, one-off cyclical tax factors should be separated from structural drivers to better project revenues. Prioritizing the development of a fiscal risk framework is essential due to risks from revenue, aging, climate challenges, and contingent liabilities.

Authorities' Views

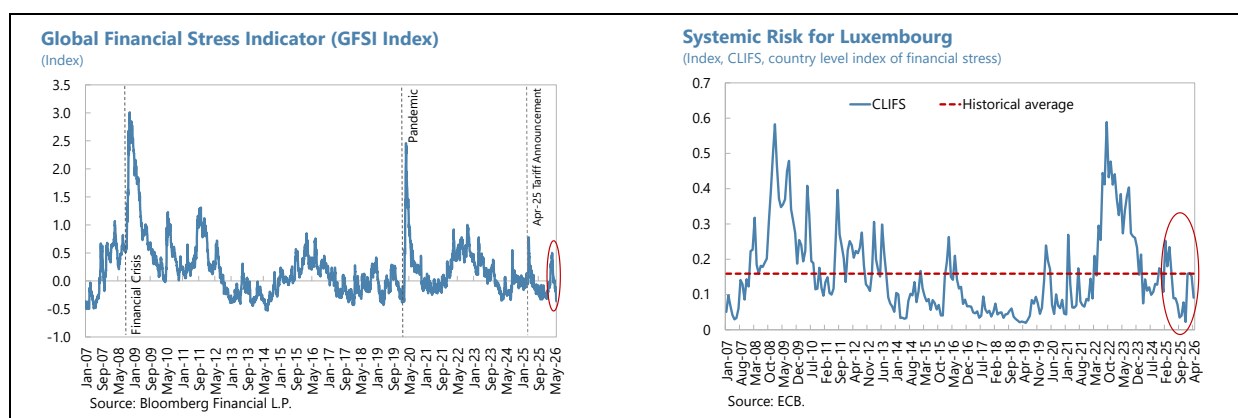
21. The authorities emphasized their commitment to maintain fiscal sustainability over the medium term. They noted weakening fiscal performance, reflecting softer-than-expected revenues and growing expenditure, including due to higher defense spending. The authorities were confident in preserving fiscal sustainability going forward, underpinned by sustained revenue growth from the financial sector's strong performance. Meanwhile, they are exploring ways to contain expenditure growth and improve spending efficiency, including in capital spending building on the upcoming

IMF PIMA assessment. The authorities agreed that any new energy support measures should be targeted and temporary, and stressed the importance of broad consultations with stakeholders as key pillar of political and social stability. They highlighted the planned reforms to increase purchasing power, including individual taxation reform, enhanced childcare support, and housing measures, while recognizing their fiscal impact. The authorities affirmed that the Medium-term Objective (MTO) continues to serve as national fiscal rule, while indicating that revisions to the fiscal framework are envisaged in the near future.

B. Financial Sector: Preserving Resilience Amidst Heightened Uncertainty

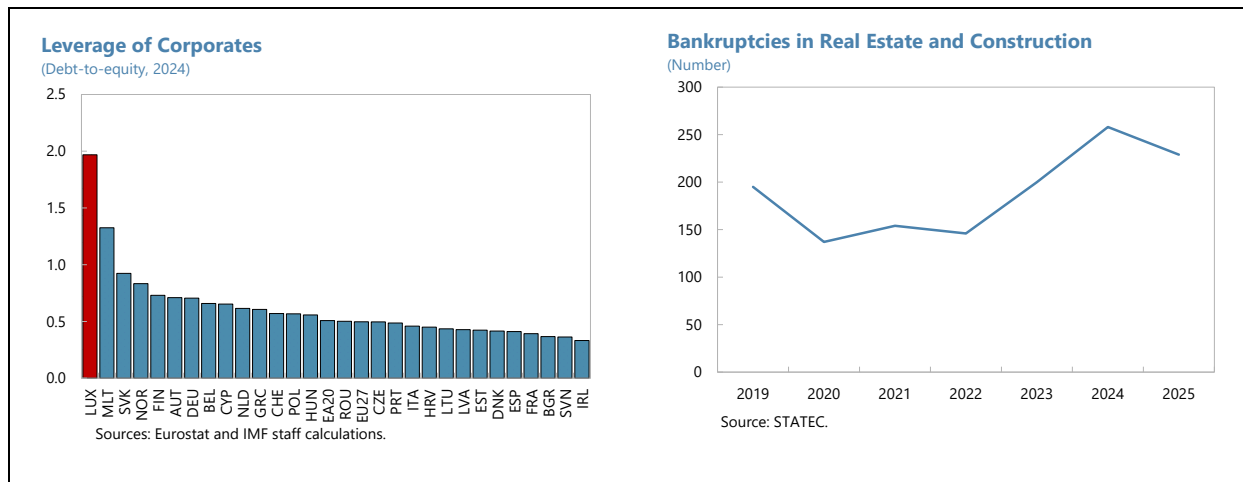
Systemic Risk Analysis

22. Systemic risk is assessed to remain moderate, as at the time of the last Article IV, although risks from the war in the Middle East warrant vigilance. Market stress associated with the conflict, while significant, has so far been lower than during the April 2025 tariff episode at the time of the previous assessment. Continued deleveraging by households and corporates, as well as an increase in bank capital buffers since then provide additional resilience. However, a further increase in geopolitical tensions and policy uncertainty could strain the highly interconnected financial system and leveraged households and corporates, setting in motion an adverse feedback loop. Stress tests for banks and non-banks, including a system-wide stress test, nonetheless indicate solid resilience under severe adverse scenarios.

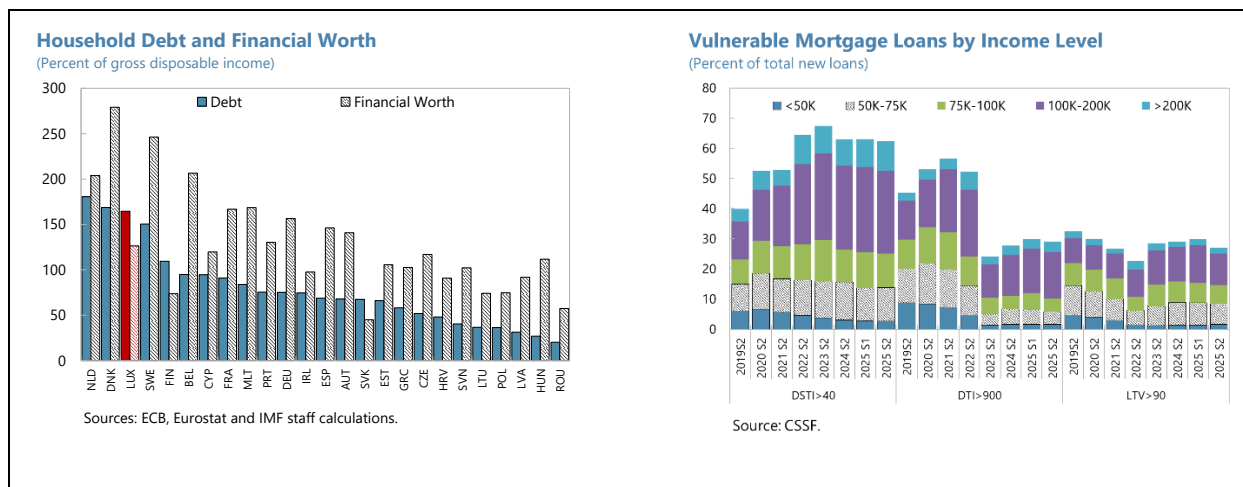


Macro-Financial

- **Corporates.** While corporates have deleveraged further last year, leverage remains high compared to peers, making them susceptible to shocks. This has been partly mitigated by looser financing conditions and the large share of intercompany loans. Strains nevertheless persist in the construction and real estate sector, although bankruptcies have been declining since 2024. If growth were to weaken and risk premia rise, bank asset quality could deteriorate, amplified by a negative feedback loop, warranting close monitoring.



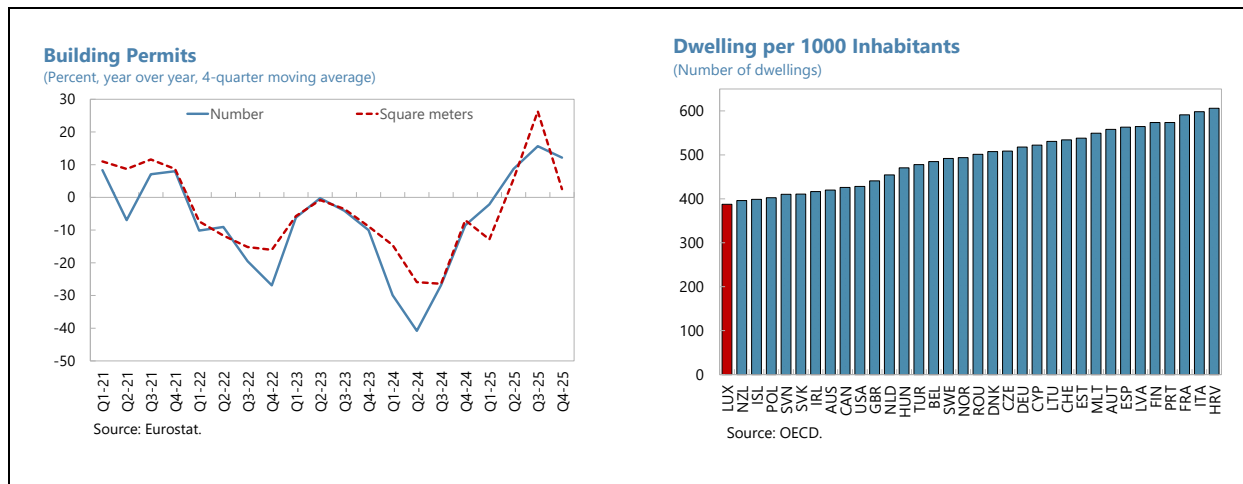
- Households.* Despite substantial net financial assets and worth, and recent declines in leverage, households have one of the highest debt loads in Europe. Wealth is unevenly distributed, with poorer households more vulnerable to shocks, especially given the limited liquidity of some assets. Borrower-based risk measures, including DTI and LTV, have remained elevated across the distribution, alongside a sizable and persistent share of vulnerable mortgages, especially among high-income borrowers. Additionally, the share of mortgage loans with variable interest rates has increased significantly since 2024 for new loans.¹⁰ Bank credit risk indicators broadly confirm this trend, showing a modest increase in mortgage default probabilities since 2024. Credit risk could resurface should unemployment rise more than expected, although automatic stabilizers would mitigate income shocks.



- Real estate markets.* With overvaluation reduced to broadly neutral levels and fiscal measures phased out, the residential segment is likely be driven by supply constraints over the medium to long term. While building permits have increased since 2024, supply may remain insufficient to

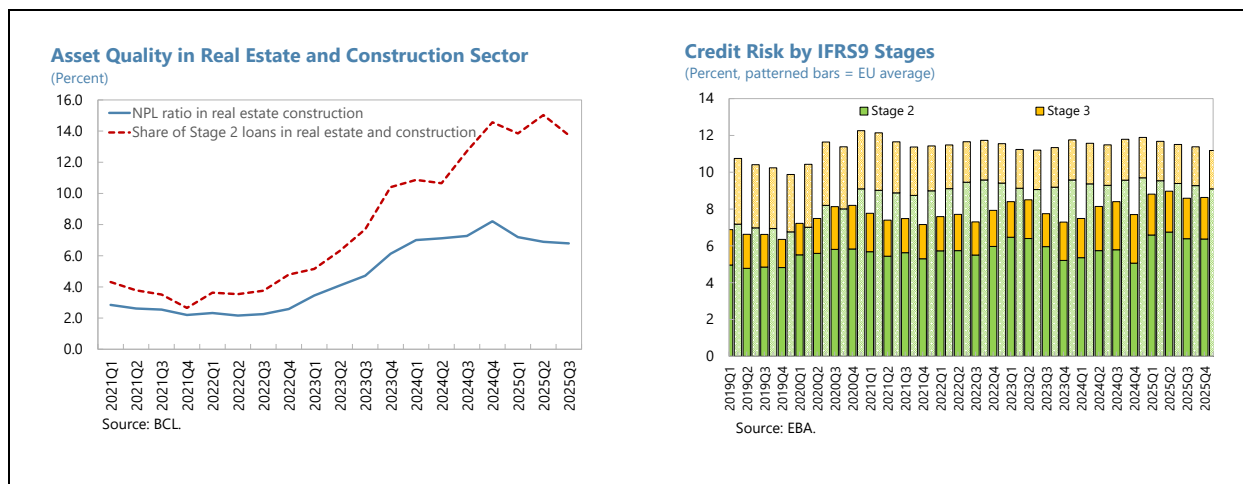
¹⁰ Stress tests assuming a significant increase in interest rates show resilience of the banking system while the borrower-based measures include a 200-basis point shock to interest rates at the mortgage loan origination stage.

reduce imbalances stemming from one of the lowest dwelling-per-capita ratios among peers. Absent progress on supply side reforms, prices could spike again and a subsequent correction could put pressure on financial stability.



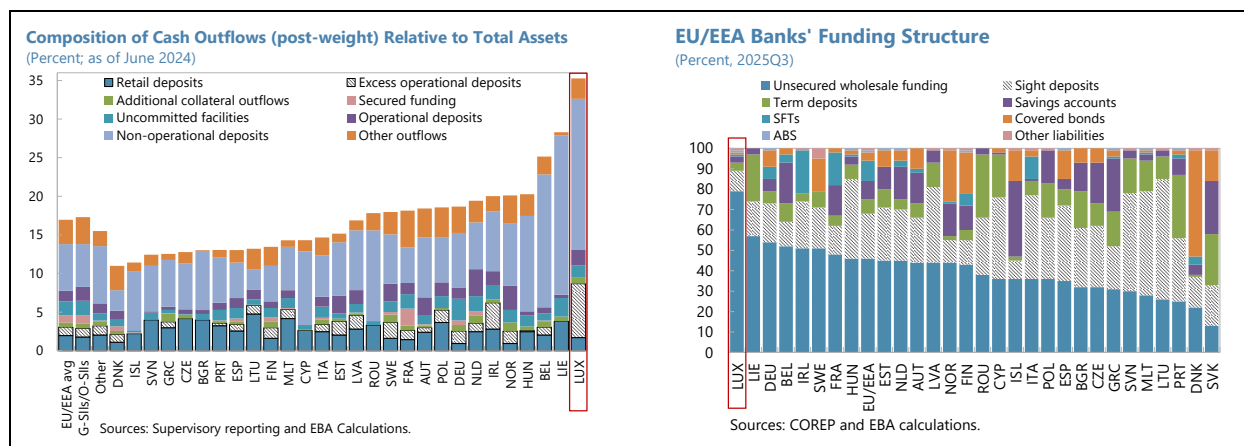
Banks

23. While bank resilience is strong, there are some pockets of vulnerabilities in asset quality and bank risk management practices. The CSSF solvency stress test shows that only very few banks, accounting for a small share of total assets, would face significant capital depletion under their adverse scenario. While asset quality is on average solid, sectoral pockets of vulnerabilities concentrated in the construction and real estate sector are healing only gradually. There is also a comparatively low share of stage 2 loans accompanied by limited sensitivity to the changes in economic and financial outlook, as well as some softening of lending standards.



24. Liquidity and funding ratios are well above regulatory minima, with mitigants in place to address some potential vulnerabilities. Liquidity stress test results indicate marked resilience, but the ratios for systemically important domestic banks are lower than for EBA peers. In addition, the LCR has a high share of both nonoperational deposits in cash outflows and financial customers

in cash inflows, with a relatively low ratio for certain noneuro reserve currencies for select banks, warranting close oversight.¹¹ The risk is partly mitigated by the composition of nonoperational deposits—largely intra-group funding and short-term deposits from the investment fund industry—and by cash inflows from financial customers, which mainly reflect intra-group operations. Both sources have historically proven stable. Funding structures are tilted toward unsecured wholesale funding, with additional vulnerabilities from FX mismatches, as reflected in relatively low NSFRs for some noneuro reserve currencies.¹² The high proportion of unsecured wholesale funding mainly reflects the investment fund services and intra-group lending activities.



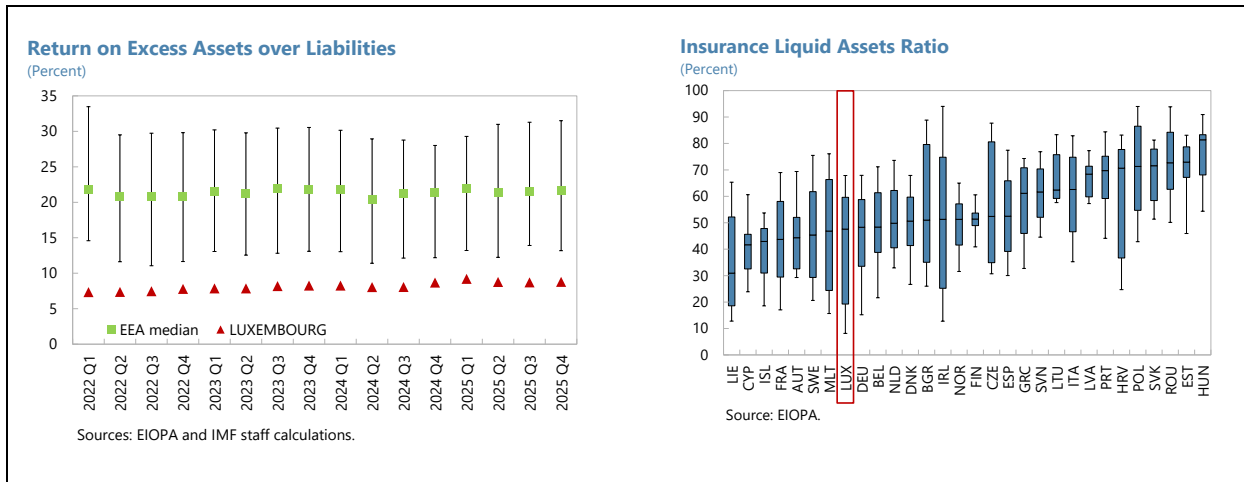
Insurance Companies

25. The insurance sector faces challenges associated with low profitability and relatively high concentration. Capital and liquidity buffers, while still substantial, are below European Insurance and Occupational Pensions Authority (EIOPA) peers, particularly for the life insurance segment. Lower capital buffers stem in part from comparatively lower profitability and still limited market expansion in the non-life segment. The recent expansion of the life segment has been accompanied by a notable increase in geographic concentration on the liability side. Furthermore, concentration has also increased on the asset side, for both life and non-life segments, especially in terms of exposures to US assets. These characteristics expose insurance companies to market risks, although they are mitigated to some extent by a relatively solid share of unit-linked business.¹³

¹¹ Nonoperational deposits are excess funds placed by corporates/institutions with banks, exceeding day-to-day needs, that are not linked to essential services like clearing or custody. See IMF (2024) FSAP and EBA (2024) Report on liquidity measures under article 509(1) of the CRR.

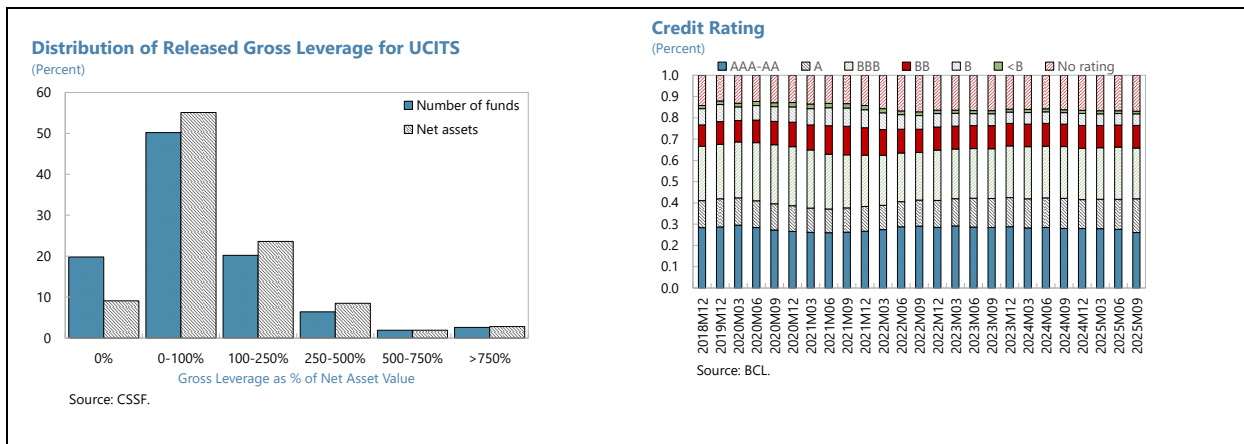
¹² EBA (2025) Report on EU banks funding structure and dependence on foreign exchange funding, November 2025.

¹³ Unit-linked products generally pass risks from insurers to customers, reducing financial stability risks, although there could remain some residual risk for insurers.



Investment Funds

26. Investment funds appear broadly resilient. Univariate stress test results reported to the CSSF, as well as supervisor-led stress tests demonstrate significant resilience of UCITS to shocks.¹⁴ Although average leverage is low for UCITS, they have substantial US exposures and a nonnegligible share of UCITS exceeds the 250 percent ratio in terms of gross leverage. About one-third of the bond portfolio is below investment grade or unrated, with a sizeable BBB segment, which could potentially face redemptions and forced sales if downgraded. In addition, while unregulated or indirectly regulated alternative investment funds account for a nonnegligible share in total assets, these funds are under close oversight of the national supervisors and predominantly have limited liquidity and leverage risks. A mitigating factor is that, under stressed market conditions, investment funds have historically increased the share of deposits in their portfolios, boosting precautionary cash buffers.¹⁵

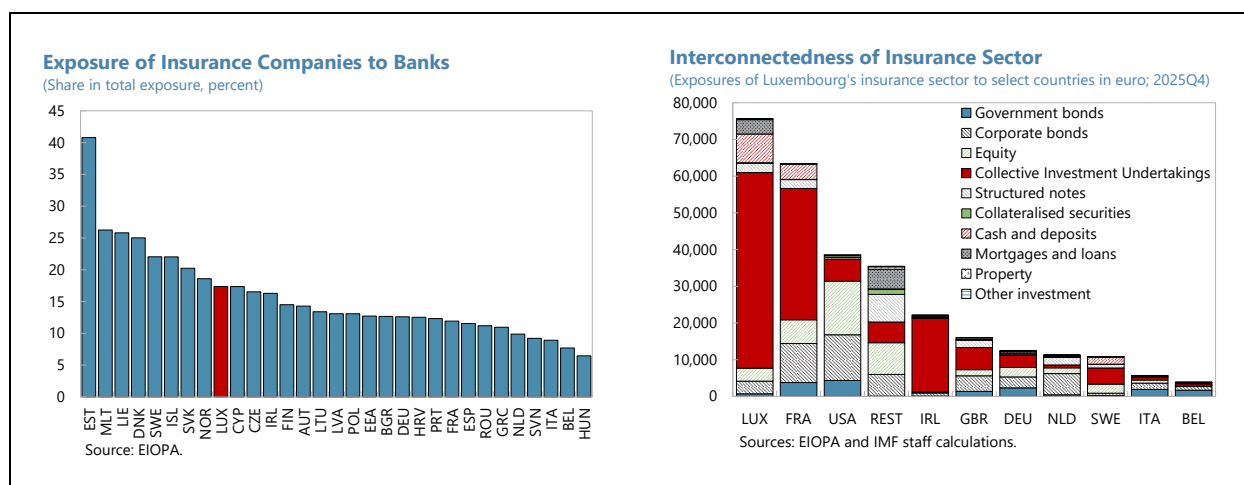


¹⁴ Based on UCITS risk reporting data as well as annual liquidity stress tests by the CSSF (CSSF, 2023, Liquidity Stress Test for Luxembourg Investment Funds: The Time to Liquidation Approach, working paper).

¹⁵ ESRB (2026) Financial stability risks from linkages between banks and the non-bank financial intermediation sector, February documents this phenomenon for earlier stress episodes, with the ongoing Middle East conflict also demonstrating a similar reaction of investment funds for this stress episode.

Interconnectedness

27. The outward-oriented and highly interconnected financial system requires a holistic and cross-sectoral approach to systemic risk assessment. Elevated geopolitical risks and stretched asset valuations increase the likelihood of abrupt repricing and tighter financing conditions, potentially triggering NBFIs portfolio rebalancing through fund redemptions and insurance policy surrenders. Strong domestic and international interconnectedness across banks, insurers, and investment funds could substantially amplify these effects. For example, bank profitability may be affected through sensitivity of net fee and commission income to investment fund flows. Tighter financing conditions would also adversely affect leveraged households and corporates, weighing on growth and bank asset quality. Historically, the abovementioned increase in investment funds' deposits at times of market stress has provided banks with a hedge against liquidity risk.¹⁶ The recently developed and deployed supervisor-led system-wide stress tests embedding interdependence between banks and investment funds suggest moderate losses, underscoring the importance of interconnectedness for systemic risk assessment.



Policy Recommendations

28. Supervisors should ensure that banks continue to have robust risk management practices in place when navigating through elevated uncertainty and geopolitical risk.

- *Asset quality.* Supervisors should continue ensuring that banks maintain conservative provisioning and conduct targeted reviews of vulnerable portfolios. Banks should improve forward-looking credit risk assessments, given the low share of stage 2 loans and limited responsiveness to changes in economic and financial outlook. Efforts should continue to establish a credit registry, as this would improve credit risk management and reduce loan losses.

¹⁶ ESRB (2026) financial stability risks from linkages between banks and the non-bank financial intermediation sector, February.

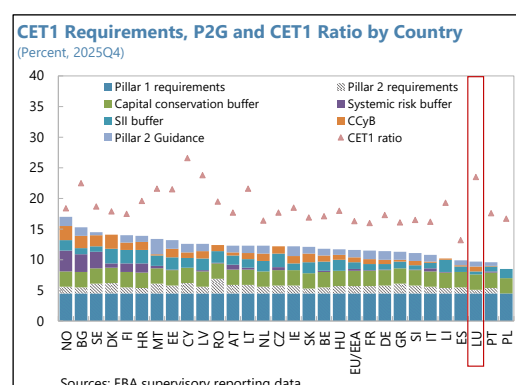
- *Liquidity and funding.* Supervisors should also continue ensuring adequate liquidity buffers and diverse funding sources. Given comparatively lower liquidity and funding ratios for domestic banks, targeted reviews, along with maintaining high buffers, including FX buffers, would help enhance resilience to liquidity and funding shocks. In addition, given the cross-border nature of the bank business model, with some currency mismatches, a continued close scrutiny of bank hedging practices is warranted.

29. Supervisors should also ensure close oversight of non-banks.

- *Insurance companies.* Amid elevated market risk and relatively weak profitability, a continued close scrutiny of liquidity and solvency buffers is important. Supervisors should also closely monitor concentration risks, as well as domestic and international interconnectedness. Recent EU initiatives on liquidity risk management plans and macroprudential oversight present an opportunity to further deepen supervision, complemented by supervisor-led stress testing, which is already in development.
- *Investment funds.* Given the importance of liquidity and leverage, especially pockets of high leverage in certain funds, close monitoring should continue, including in terms of concentration risks as well as domestic and international interconnectedness. European and international initiatives to enhance oversight of liquidity and leverage offer scope to deepen supervision, including on synthetic leverage and systematic use of supervisor-led stress testing, complemented by an ongoing but broader implementation of liquidity management tools.¹⁷

30. The macro-prudential framework should continue evolving in line with emerging risks.

- *Systemic risk analysis.* While the existing systemic risk analysis framework is very advanced and comprehensive, with a system-wide stress test embedding banks and investment funds, incorporating insurance companies would be an important extension, given the size and degree of interconnectedness for the sector.¹⁸
- *Capital-based measures.* With the credit cycle entering a nascent expansionary phase and domestic bank capital requirements comparatively low, consideration could be given to increasing releasable buffers. This could include increasing the countercyclical capital buffer (CCyB) and formalizing the positive neutral CCyB framework. The CCyB rate is low compared to peers, with estimates suggesting a



¹⁷ ESMA (2026) Guidelines on Liquidity Management Tools of UCITS and Open-Ended AIFs, March. ESMA calls for selecting at least one quantitative-based LMT (i.e. redemption gates, extension of notice period), and at least one anti-dilution tool (i.e. redemption fees, swing pricing, dual pricing, ADL) and CSSF (2026) Circular 26/910.

¹⁸ BCL (2025): A system-wide stress testing for Luxembourg financial sector, Financial Stability Review, August.

recommended level of 1 percent for Luxembourg.¹⁹ Alternatively, activating a sectoral systemic risk buffer (SyRB) targeting real estate exposures could be a consideration.

- *Borrower-based measures.* Direct income-based measures, notably DSTI limits, should be introduced early in the recovery phase. Establishing a credit registry would be essential to ensure comprehensive coverage of household debt and help calibrate income-based measures. Given an elevated share of vulnerable mortgages, staff reiterates the FSAP proposal of a stressed DSTI of 45–50 percent with a speed limit that could be adjusted over the cycle.²⁰ A second-best option would be to introduce guidance on residual income after the interest rate stress test, and/or consider allowing limited asset use in DSTI assessments. A gradual reduction of the maximum LTV limit of 100 percent should also be considered. Together, these measures would reduce consumption at risk and improve housing affordability in the medium term. The adverse impact on low-income households could be mitigated through higher investment in social housing.

		Overview of Implemented and Announced BBMs Across EA Countries (Limits defined under national frameworks)																				
		■ All types of borrower ■ First time buyer (FTB) ■ Second and subsequent buyer (SSB)																				
BBMs		AT	BE	BG	CY	DE	EE	ES	FI	FR	GR	HR	IE	IT	LT	LU	LV	MT	NL	PT	SI	SK
LTV	FTB	90%	90%	85%	80%		85%		95%		90%	90%	90%		85%	100%	90%	90%	100%	90%	80%	80%
	SSB								90%		80%	90%	90%		70%	90%		75%			70%	
LTV exemption	FTB	20%	35%	5%			15%				10%	20%	15%			15%	10%	10%				20%
	SSB		20%										15%				20%					
DSTI/LSTI	FTB	40%	50%	50%	80%		50%		60%	35%	50%	45%			40%		40%	40%	30%	50%	50%	60%
	SSB										40%											
DSTI/LSTI exemption	FTB	20%	5%	5%			15%		15%	20%	10%	20%					10%			10%	3%	5%
	SSB																			5%		
DTI/LTI	FTB		9y										4y				6y					3-8y
	SSB												3.5y									
DTI/LTI exemption	FTB		5%										15%				10%					5%
	SSB												15%									
Maturity	FTB	35y		30y			30y		30y	25y		30y			30y		30y	40y	30y	40y		30y
	SSB																	25y				
Maturity exemption	FTB	20%		5%			15%		10%	20%							10%				15%	10%
	SSB																					

Sources: ECB Macroeprudential Bulletin 29, ESRB, and IMF staff calculations.
 Note: Lending standards in Luxembourg are required to be assessed based on the Stress Test on Residual Income and Interest Rate approach assuming a 200-basis point interest rate stress test on new borrowers' capacity to repay.

31. Staff commend further progress in implementing the 2024 FSAP recommendations and encourage recalibrating the macroprudential framework. The authorities have advanced a more integrated assessment of systemic risk by operationalizing a solvency-liquidity stress testing framework for banks and a system-wide stress test covering banks and investment funds. Bank liquidity supervision has been strengthened through finalizing a memorandum of understanding

¹⁹ De Nora, G., Pereira, A., Pirovano, M. and Stammwitz, F. (2025), "From losses to buffer - calibrating the positive neutral CCyB rate in the euro area", Working Paper Series, No 3061, ECB.

²⁰ Banks have been allowed to lend up to 10 percent (speed limit) of new mortgages for buy-to-let dwellings with an LTV above the regulatory limit of 80 percent and up to a maximum of 95 percent.

between the BCL and CSSF. Monitoring of liquidity and leverage for investment funds has been enhanced via more risk-based, data-driven supervision and the development of a margin stress testing capturing the liquidity risks resulting from synthetic leverage. Accountability and transparency of macroprudential policy have also improved with the publication of the factors underpinning policy decisions. Further steps have been taken on the operationalization of the resolution tools by expanding the national resolution handbook and participating in simulation exercises. Progress has so far been limited in terms of macroprudential policy recalibration.

AML/CFT

32. The momentum created by recent enhancements to the AML/CFT framework has improved its effectiveness and should be sustained. The update of the ML NRA had been completed in 2025, highlighting the success of risk mitigation measures in curbing threats posed by foreign proceeds of crimes, and the significant residual risk related to legal arrangements and legal and accounting professions supervised by the AED. The 2025 amendment of Luxembourg's AML and criminal procedure framework provides, among other reforms, broader legal tools to prosecute the laundering of foreign proceeds of crime. To maintain an effective management of the risk of cross-border flows, the relevant authorities should i) complete the update of the TF risk assessment, ii) continue to enhance the understanding of related ML/TF risks through the exchange of information with domestic and foreign authorities, and iii) strengthen mitigation measures addressing the risk of misuse of legal arrangements.

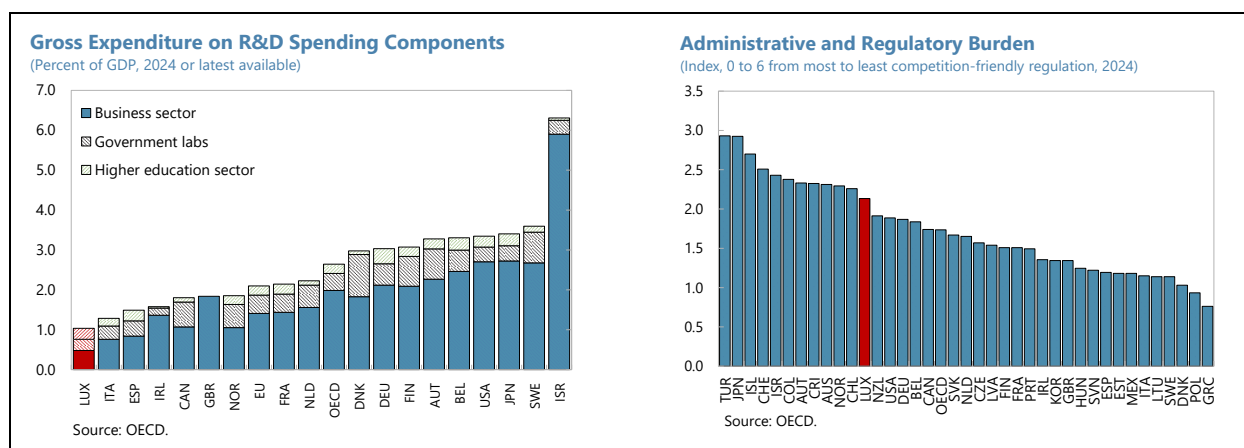
Authorities' Views

33. The authorities broadly concurred with staff's assessment of systemic risks, emphasizing that the financial system remains resilient. They underscored that banks' large capital headrooms cushion potential shocks, as evidenced by stress test results, and were underpinned by a high degree of provisioning. The authorities noted that they remain vigilant to credit risk in the construction and real estate sector, ensuring prudent collateral valuations. They also reiterated continued close oversight of bank liquidity and funding risks, noting that these are in general mitigated by business models where the funding base exceeds the credit portfolio, leading to significant short-term placements at the BCL, at intra-group and/or inter-bank levels. The authorities took note of staff advice on capital-based measures, as well as the recent ECB and the ESRB analysis of a positive neutral CCyB, but considered the current stance adequate, while remaining open to further review in the future should their risk assessment change. They also took note of staff advice on borrower-based measures, pointing to no significant materialization of risks in the mortgage portfolio despite the RRE market contraction and highlighting potential adverse distributional effects of the recommended recalibration. The authorities underlined close oversight of the investment fund sector, giving due consideration in that context to the current prevailing geopolitical uncertainties, and that they contribute actively to the international and European policy initiatives. They also noted progress in insurance supervision, with a top-down stress-testing framework to be deployed in the near future.

C. Structural Policy: Promoting Productivity-Led and AI-Enabled Growth

34. Rebalancing the economy toward private sector-led growth is essential to revive productivity. Stalling productivity growth partly reflects weak business R&D and slow digital technology adoption. A more dynamic private sector is critical for innovation and productivity growth.

- *Accelerate digital and AI diffusion with enhanced support.* Luxembourg's R&D spending as a share of GDP is one of the lowest in the OECD, and digitalization of SMEs continued to lag significantly behind larger enterprises.²¹ In response, authorities intensified efforts in 2024 to facilitate companies' digital and ecological transition by increasing the investment tax credit and expanding support for innovation projects. Future initiatives could focus on increasing direct R&D grants complemented with indirect incentives (e.g. R&D tax credits) and building digital infrastructure to facilitate technology adoption within sectors. Simplified access to investment incentives, combined with advisory services and experimentation support, would help narrow gaps between frontier and laggard firms.
- *Improve access to finance and facilitate firm exit.* Deepening venture capital and business-angel markets through improved incentives and co-investment mechanisms would support start-ups and innovative firms. The proposed 28th regime reform would promote cross-border expansion, while continued implementation of insolvency reforms would facilitate efficient firm exit and resource reallocation.
- *Reduce administrative and regulatory burdens.* Simplifying business registration, licensing, and compliance requirements, especially for SMEs, would lower entry costs and encourage innovation.

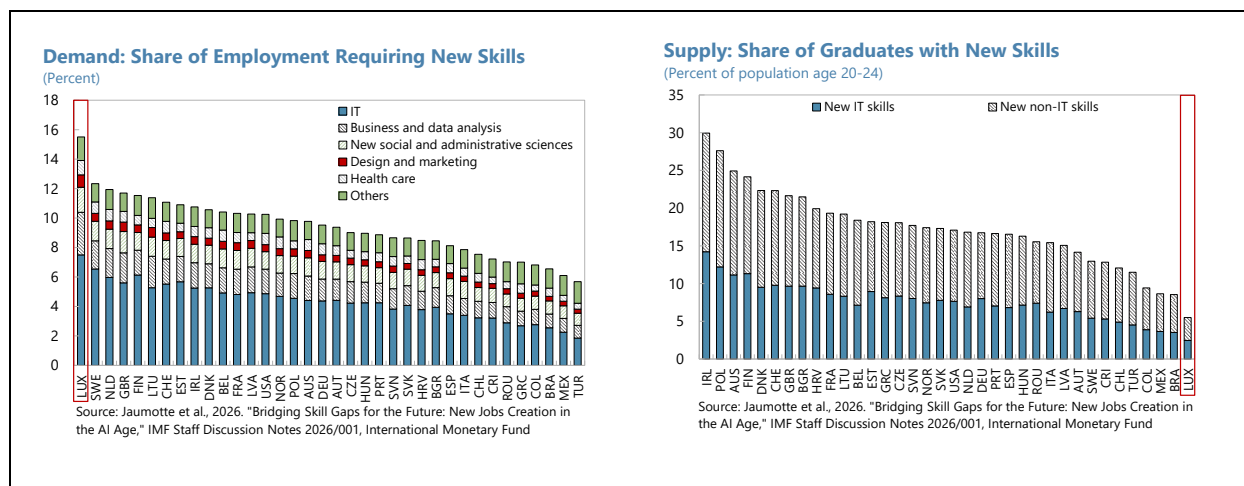


35. Luxembourg has high potential to benefit from AI-driven productivity gains, provided policies address skills mismatches. Being a small open economy with a large international financial

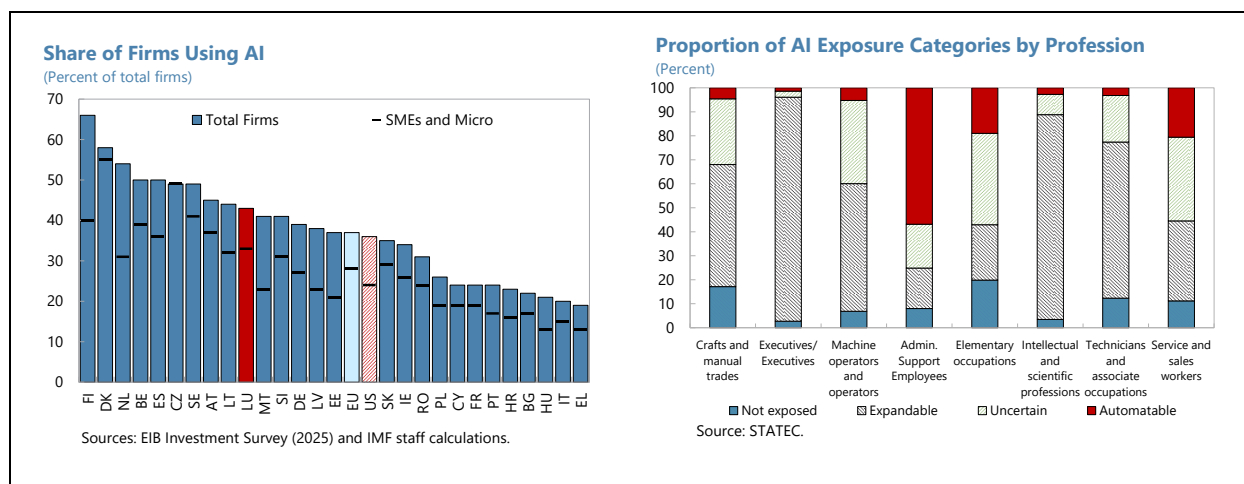
²¹ European Commission, 2025. "Luxembourg 2025 Digital Decade Country Report".

sector, it has strong demand for new skills, but there is a limited domestic supply of labor with the needed skill sets.²²

- *Align education and training with labor market needs.* Education and training systems should be further aligned with demand, with greater emphasis on STEM, ICT, and technical skills, including through curriculum reforms and stronger school-to-work linkages.
- *Scale up reskilling and upskilling.* The Skills-Plang (“Skills Plan”) Bill introduced in 2025 encourages companies (especially SMEs) to develop training and retraining plans for workers facing AI-driven job changes. Life-long learning and vocational training should be further expanded. Improving quality assurance through an accreditation framework for training providers would enhance effectiveness.
- *Support labor market transitions toward AI-complementary jobs.* To mitigate displacement risks, proactive transition support should be provided for workers in automatable occupations, including career guidance, flexible training programs, and incentives for firms to invest in workforce reskilling. These measures would help limit transitional unemployment with AI adoption.

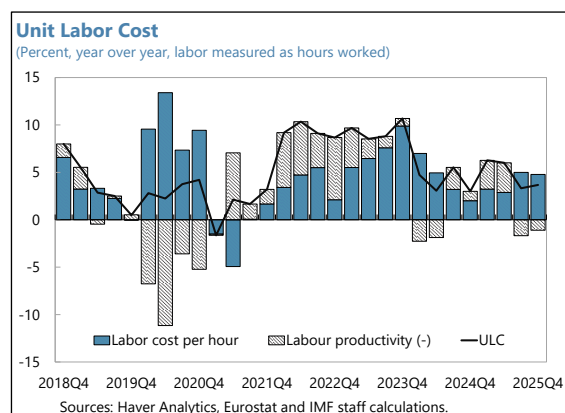


²² For more analysis, see Jaumotte et al., 2026. "Bridging Skill Gaps for the Future: New Jobs Creation in the AI Age," IMF Staff Discussion Notes 2026/001, International Monetary Fund; and Misch et al., 2025, "AI and Productivity in Europe", IMF Working Paper No. 2025/067, International Monetary Fund.



36. Labor market reforms should be accelerated. With limited scope for continued labor force expansion, policies should increasingly focus on raising participation, improving labor allocation and labor market flexibility.

- *Increase labor market flexibility.* While automatic wage indexation boosts household income, it pushes up real wages and constrains firms' capacity to adapt to shocks. The decoupling of wages and productivity growth makes it more pressing to reform the automatic wage indexation. Reforms to make wage indexation more flexible and less distortive should be considered. One option could be to index wages to core inflation and complement this as needed with targeted support for the poorest.²³ The collective bargaining reforms could help improve labor mobility within and across sectors. Moreover, lowering the public-private wage premium—one of the highest in Europe—could have positive effects on skills availability and labor costs for the private sector.



- *Increasing labor supply and participation rates.* The recent pension reform could help extend effective working ages, while moving toward single class taxation would reduce disincentives for second earners and female labor participation helping to reduce large gender gap in employment. These reforms should be supported by flexible work arrangements and sufficient childcare support, and active labor market policies to maximize take-up and effectiveness. The reforms will help boost potential growth.
- *Facilitating skilled and cross-border labor supply.* Given persistent skills shortages, streamlining and fully digitalizing visa and work-permit procedures, particularly for occupations in shortage,

²³ See [Luxembourg 2023 SIP](#).

would help alleviate bottlenecks. For cross-border workers, investments in transport infrastructure and expanded hybrid work arrangements would reduce congestion and increase effective labor supply without exacerbating housing pressures.

37. Addressing housing market imbalances is essential. High housing costs are eroding real incomes, hindering talent move and amplifying shocks.

- *Rebalance housing policies toward supply.* High housing costs are constraining labor supply, raising reservation wages, and eroding competitiveness. Shifting policy emphasis toward expanding supply would help contain prices over the medium term and improve affordability. The acceleration of investment in social and affordable housing in 2025 could mitigate supply constraints and support vulnerable households. Phasing out untargeted demand-side housing support in 2025 is also welcome.
- *Mobilize land and housing stock.* The proposed introduction of a national land mobilization tax is a step in the right direction, though the design of the reform could be enhanced by setting a minimum tax rate and lowering the allowances in the land valuation formula. Strong central oversight of local planning decisions would be needed to ensure alignment with national housing objectives.

38. Deepening the European Single Market would yield significant gains for a small open economy with large presence of services and financial sector. Completing the Single Market for services would largely benefit Luxembourg by reducing regulatory fragmentation and compliance costs, strengthening its role as a hub for high-value business and financial services, and supporting high-skill job creation. Progress toward a Savings and Investment Union, which would deepen EU capital markets and increase demand for cross-border financial intermediation, could reinforce Luxembourg's position in securitization and asset servicing. In addition, enhanced cross-border labor mobility and mutual recognition of qualifications would help address skill matching and ease wage and capacity constraints.

39. Luxembourg has joined the IMF's voluntary assessment of transnational aspects of corruption (Annex IX). While facing moderate foreign bribery risk, Luxembourg has been exposed to significant risk of facilitation of foreign corruption. According to OECD Working Group on Bribery (WGB)'s Phase 4 evaluation (2024), Luxembourg has introduced significant legislative and institutional changes, but more efforts are needed to address structural resource issues, insufficient detection and weak enforcement. Luxembourg updated the national risk assessment in 2025 and adopted important legal amendments that bolster the capacity to prosecute laundering of foreign proceeds of corruption. Staff encourage the authorities to improve information sharing with foreign authorities on risk of laundering of foreign proceeds of corruption through cross border flows, maintain adequate investigative resources, and strengthen the oversight and sanctions for non-compliance, particularly regarding domestic fiducies, foreign trusts, accountants, professional directors and business centers.

Authorities' Views

40. The authorities agreed with the need to expedite structural reforms. They shared the view that the economy faces a number of structural challenges. They agreed with the importance of accelerating AI adoption through expanding investment in digital infrastructure and facilitating technology transfer within sectors. They highlighted ongoing efforts to expand targeted upskilling, reskilling initiatives, and talent retention to address skills mismatches and bolster labor supply. The authorities also acknowledged the need to expedite supply-side reforms to improve housing affordability, including plans to implement a land-mobilization tax aimed at stimulating housing supply. Additionally, they noted the potential benefits of advancing single market reform at the EU level. The authorities also agree that Luxembourg remains exposed to risks related to transnational corruption. They emphasize the continuous implementation of the OECD recommendations while remaining committed to further reinforcing the framework through risk-based supervision, enhanced information sharing, and targeted reviews.

41. The authorities reaffirmed their support for further developing the Savings and Investments Union. They stressed the importance of reducing the administrative and regulatory burden and simplifying rules to channel more investment into the European economy and unlock the potential of EU capital markets. They also called for an evidence-based approach to promote convergence in supervisory practices where needed. At the same time, the authorities consider that centralization of powers at the EU level will not advance the objectives of the Savings and Investment Union, nor enhance EU competitiveness.

STAFF APPRAISAL

42. Luxembourg's economic recovery remains tepid and uneven, with the outlook clouded by elevated global uncertainty and domestic constraints. Growth has yet to regain its past dynamism and continues to lag euro area peers, with activity increasingly driven by the public sector, masking underlying weaknesses in private investment and productivity. The labor market slack has continued with employment gains concentrated in the public sector, while inflationary pressures have accelerated in 2026. The outlook is weighed down by the Middle East war, weaker external demand, as well as domestic challenges in the construction sector and the labor market, with risks to the downside. Luxembourg's external position is assessed to be broadly in line with fundamentals, albeit subject to important measurement challenges reflecting its role as a global financial center and a large share of cross-border workers.

43. A more growth-friendly composition of fiscal spending would be preferable in 2026. The broadly neutral fiscal stance in 2026 is appropriate following a significant deterioration in 2025, but an elevated wage bill and social benefits risk crowding out priority investment. Containing the increase in current spending with a rebalancing toward more growth-enhancing investment spending would have better positioned the economy for stronger growth.

44. In the medium term, fiscal policy should focus on preserving buffers and stabilizing debt. Fiscal balances are projected to weaken further under current policies, reflecting structural spending pressures from interest costs and social benefits, and softening revenue growth partly due to planned individual taxation reform. Staff recommend a moderate fiscal adjustment to stabilize public debt and safeguard fiscal space, primarily through containing current expenditure and improving spending efficiency, while broadening tax base. The planned income tax reform could support labor supply and purchasing power but entails sizable fiscal costs; identifying offsetting measures will be important to mitigate its impact.

45. Strengthening the fiscal framework would enhance policy credibility and mitigate fiscal risks. Rising medium-term spending pressures underscore the need for a stronger fiscal anchor. The adoption of a well-designed national fiscal rule—combining a debt anchor with an operational rule based on expenditures or fiscal balances—would help guide policy. Enhancing fiscal governance, including strengthening fiscal risk analysis, improving budgeting practices, and bolstering the role of the fiscal council, would further support policy making. While the pension reform is a welcome step, additional measures will be needed to ensure long-term sustainability.

46. The financial system has demonstrated resilience, but heightened uncertainty calls for continued vigilance. Banks and non-banks remain well capitalized and liquid and have weathered well recent market stress episodes. Policy priorities should center on ensuring robust risk management practices across banks and non-banks. Supervisors should continue to promote conservative provisioning, strengthen forward-looking credit risk assessment, and continue ensuring adequate liquidity buffers and diversified funding, particularly given the system's cross-border nature. Continued close oversight of non-banks—including investment funds and insurers—remains essential, with a focus on monitoring liquidity, leverage, and concentration risks, and advancing the use of supervisor-led stress testing and liquidity management tools. Staff welcome further progress in implementing the 2024 FSAP recommendations, including enhanced system-wide stress testing covering banks and investment funds, strengthened bank liquidity and funding supervision, as well as advanced and more data-driven oversight of investment fund risks.

47. Macroprudential policy should remain proactive and adapt to emerging risks. With the credit cycle entering an early expansion phase, there is scope to further strengthen releasable capital buffers (in line with FSAP recommendation). Introducing explicit income-based borrower measures would help address risks stemming from high household indebtedness and improve resilience. Continued enhancement of systemic risk analysis, including accounting for cross-sectoral interconnectedness and strengthening stress-testing frameworks, should remain a priority.

48. Structural reforms are critical to support productivity and rebalance growth toward the private sector. To reinvigorate productivity growth, policies should prioritize accelerating digital and AI adoption, along with addressing skill mismatches through expanded support of reskilling and upskilling. Labor market reforms to increase participation and flexibility—including through improving incentives, facilitating labor mobility, and revisiting automatic wage indexation—are essential. Tackling housing affordability through more decisive supply-side measures would help contain costs, support labor supply, and enhance competitiveness. Advancing EU single market

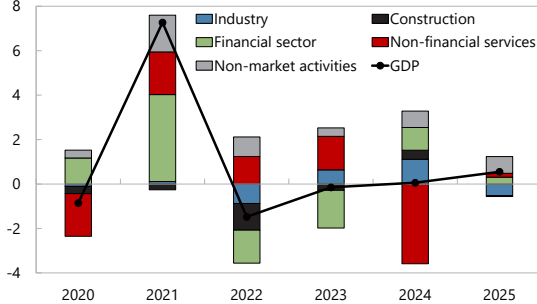
integration, including the Savings and Investment Union, would strengthen Luxembourg’s growth prospects.

49. It is proposed that the next Article IV consultation with Luxembourg takes place on the standard 12-month cycle.

Figure 1. Luxembourg: Real Sector

Change in Real Value Added by Sector

(Percentage points)

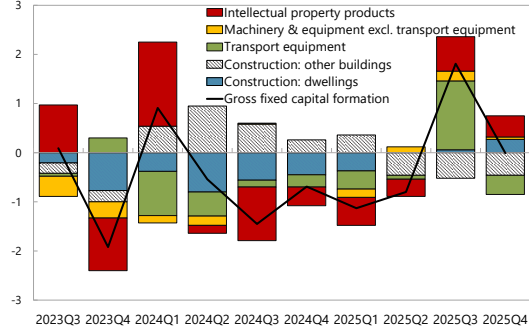


Sources: STATEC and IMF staff calculations.

Note: Non-market activities refer to public sector activities.

Investment Contribution to Real GDP Growth

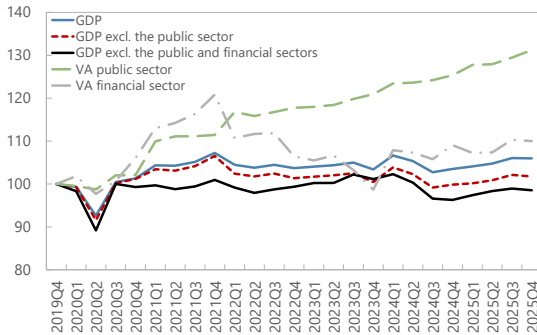
(Percent year over year, contributions in percentage points)



Sources: Haver Analytics, EC and IMF staff calculations.

GDP Evolution, by Sector

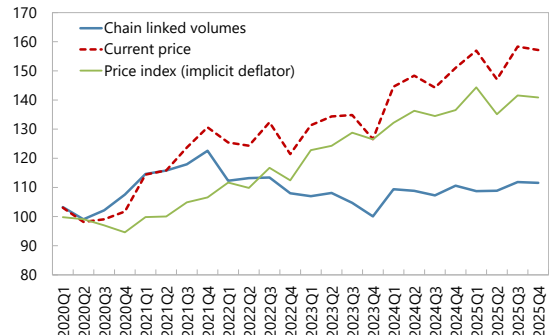
(Index 100=2019Q4, seasonally adjusted)



Sources: STATEC; and IMF staff calculations.

Value Added by the Financial Sector

(Index, 2015=100)

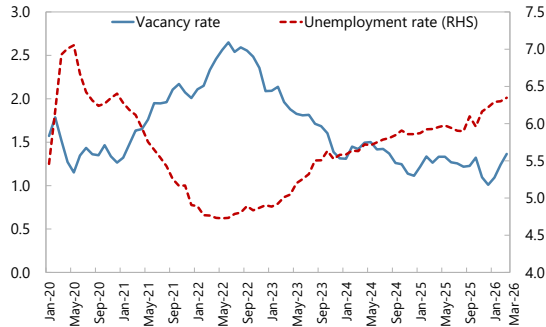


Sources: Eurostat and IMF staff calculations.

Figure 2. Luxembourg: Labor Market

Labor Market Tightness

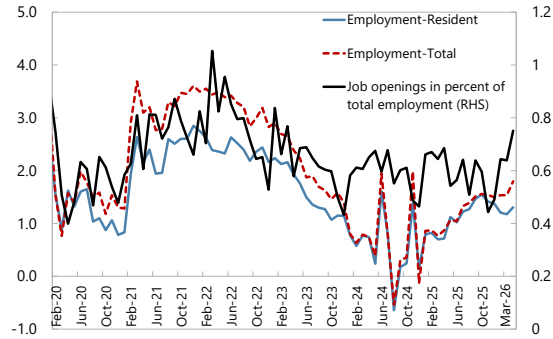
(Percent, seasonally adjusted)



Sources: STATEC and IMF staff calculations.

Employment and Job Openings

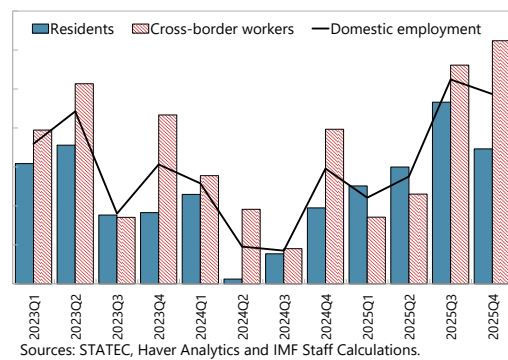
(Percent change, year over year)



Source: STATEC.

Domestic Employment Growth

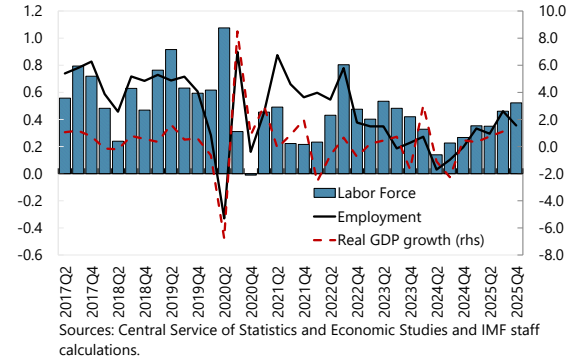
(Percent, quarter over quarter, seasonally adjusted)



Sources: STATEC, Haver Analytics and IMF Staff Calculations.

Real GDP and Labor Market References

(Percent, quarter over quarter, seasonally adjusted)

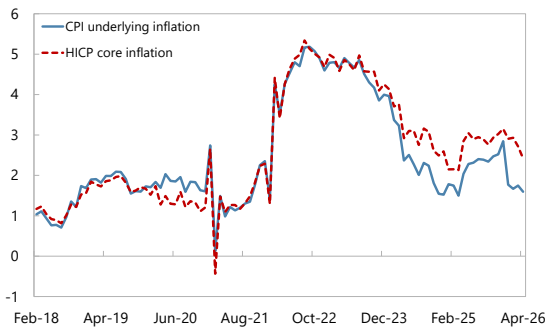


Sources: Central Service of Statistics and Economic Studies and IMF staff calculations.

Figure 3. Luxembourg: Inflation

Core and Underlying Inflation

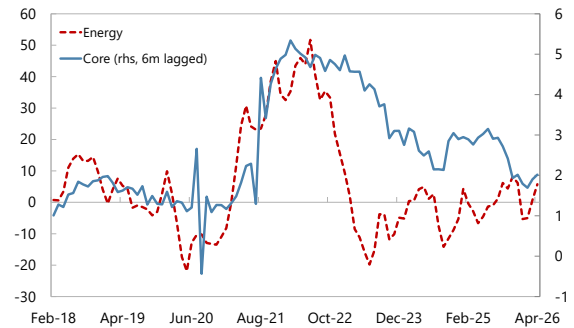
(Percent, year over year)



Sources: Haver Analytics, Statec, Eurostat and IMF staff calculations.

Inflation Pass-through from Energy to Core

(Percent, year over year)

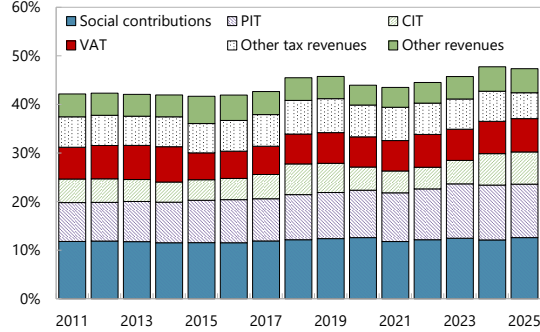


Sources: Haver Analytics, Statec, Eurostat and IMF staff calculations.

Figure 4. Luxembourg: Fiscal Sector

General Government: Total Revenue

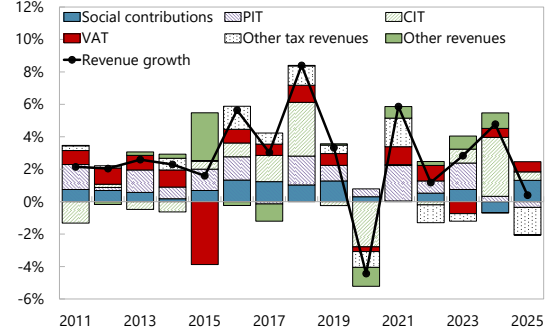
(Percent of GDP)



Sources: STATEC and IMF staff calculations.

Contribution to Real Revenue Growth

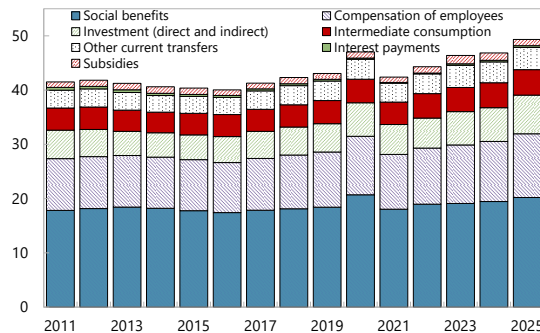
(Percent, adjusted by GDP Deflator)



Sources: STATEC and IMF staff calculations.

General Government: Total Expenditure

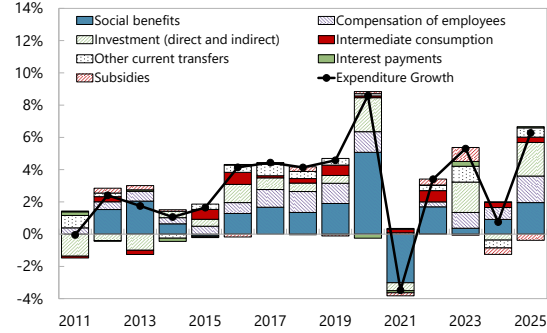
(Percent of GDP)



Sources: STATEC and IMF staff calculations.

Contribution to Real Expenditure Growth

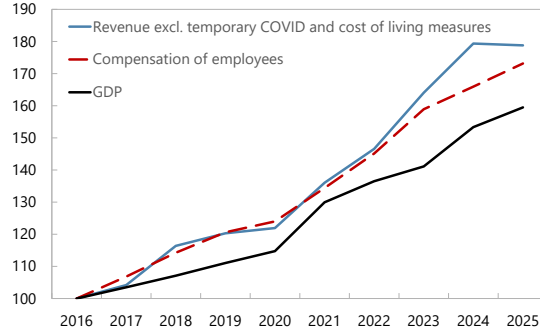
(Percent, adjusted by GDP Deflator)



Sources: STATEC and IMF staff calculations.

Central Government Fiscal Aggregates and Tax Base

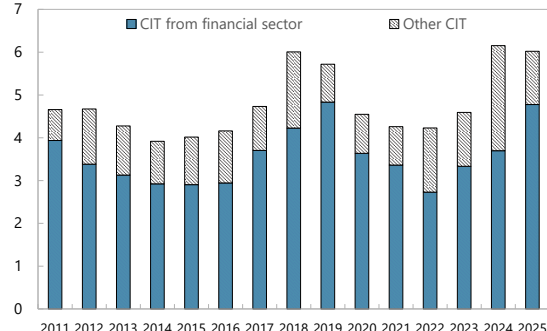
(Index 2015=100)



Sources: Statec and IMF staff calculations.

CIT from Financial Sector

(Percent of GDP)

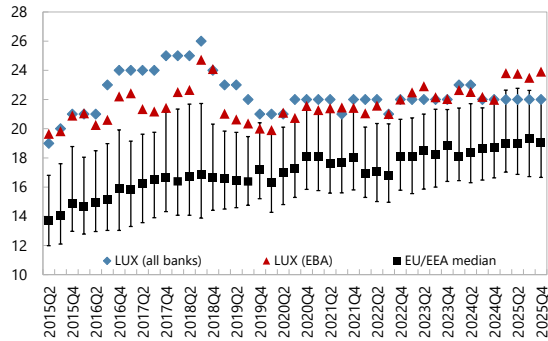


Sources: STATEC and IMF staff calculations.

Figure 5. Luxembourg: Banking Sector

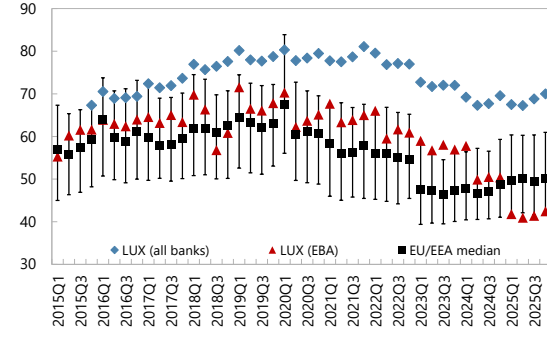
Tier 1 Capital Ratio

(Percent)



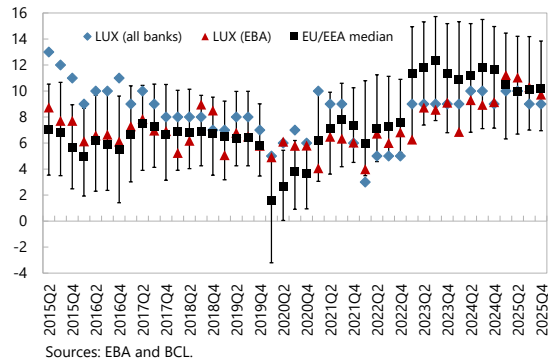
Cost to Income Ratio

(Percent)



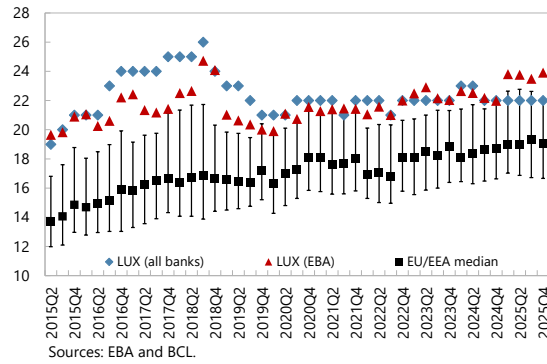
Return on Equity

(Percent)



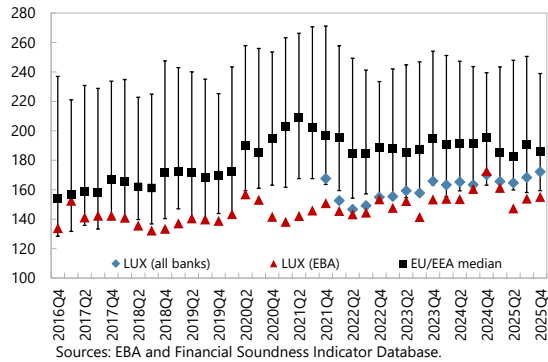
Tier 1 Capital Ratio

(Percent)



Liquidity Coverage Ratio

(Percent)



Net Stable Funding Ratio

(Percent)

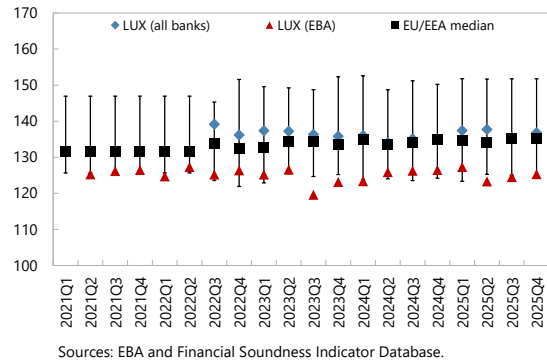
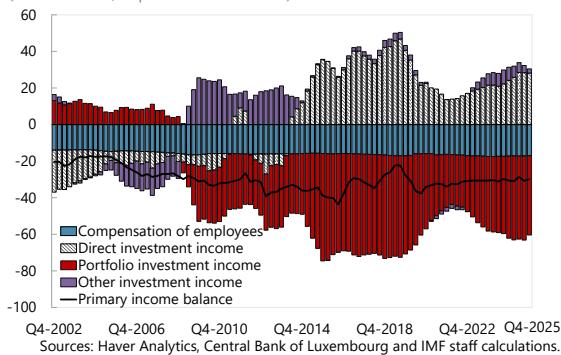


Figure 6. Luxembourg: External Sector

Current Account Balance: Primary Income

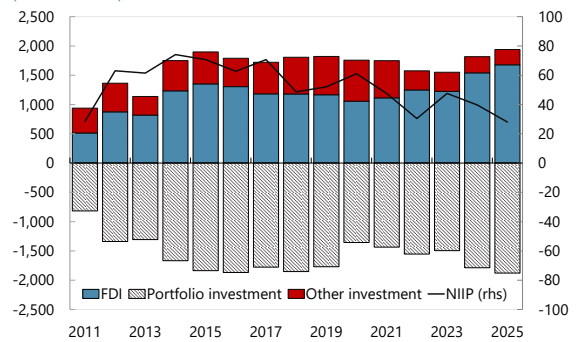
(Percent of GDP, 4-quarter cumulative sum)



Sources: Haver Analytics, Central Bank of Luxembourg and IMF staff calculations.

Net International Investment Position

(Percent of GDP)

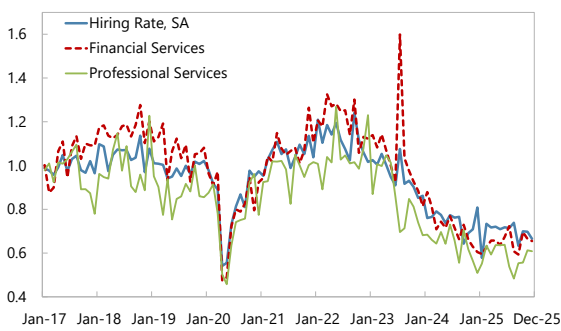


Sources: Haver Analytics, Central Bank of Luxembourg and IMF staff calculations.

Figure 7. Luxembourg: Structural Sector

Luxembourg LinkedIn Hiring Rate

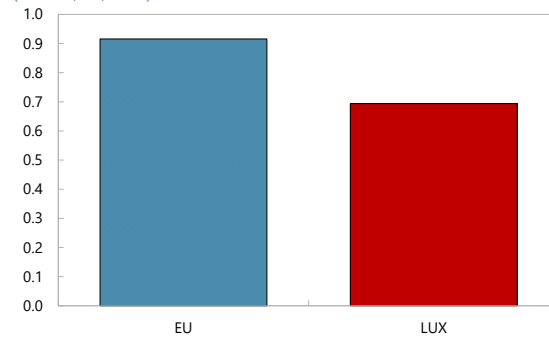
(Percent, SA)



Source: Data Partnership LinkedIn Data.

LinkedIn Hiring Rate

(Percent, SA, 2025)



Source: Data Partnership LinkedIn Data.

Table 1. Luxembourg: Selected Economic Indicators, 2020–31

	2020	2021	2022	2023	2024	2025	Projections					
							2026	2027	2028	2029	2030	2031
Real Economy (percent change)												
Gross domestic product	-0.5	6.9	-1.1	0.1	0.4	0.6	1.2	1.7	2.1	2.1	2.0	2.0
Total domestic demand	-2.7	10.0	0.3	1.0	2.5	2.0	1.5	2.5	2.2	2.2	2.1	2.1
Private consumption	-7.7	11.3	6.6	3.8	3.2	2.2	2.0	2.1	2.1	2.2	2.2	2.2
Public consumption	7.6	4.8	4.0	1.6	4.9	3.7	2.6	2.5	2.2	2.1	2.0	2.0
Gross investment	-3.3	12.9	-13.9	-5.5	-2.0	-1.2	-0.8	3.7	2.2	2.2	2.1	2.1
Foreign balance 1/	1.4	0.4	-1.2	-0.5	-1.1	-0.7	-0.5	-0.1	0.6	0.5	0.5	0.5
Exports of goods and nonfactor services	1.9	11.3	1.5	0.6	-12.2	1.2	-1.4	2.2	2.0	2.1	2.1	2.0
Imports of goods and nonfactor services	1.4	13.4	2.4	0.9	-13.6	1.8	-1.4	2.6	2.0	2.1	2.2	2.1
Labor Market (thousands, unless indicated)												
Resident labor force	294.2	298.3	302.8	309.2	313.6	318.2	323.9	328.7	334.0	339.3	345.3	351.1
Unemployed (average)	18.7	17.1	14.6	16.2	18.0	19.0	20.0	21.0	21.2	21.2	21.6	21.6
(Percent of total labor force)	6.4	5.7	4.8	5.2	5.7	6.0	6.2	6.4	6.4	6.2	6.2	6.2
Resident employment	275.5	281.2	288.3	293.1	295.6	299.2	304.0	307.8	312.8	318.2	323.7	329.6
(Percent change)	1.5	2.1	2.5	1.7	0.9	1.2	1.6	1.3	1.6	1.7	1.7	1.8
Cross-border workers (net)	196.1	203.9	213.0	217.9	220.4	222.9	224.5	227.6	231.7	236.5	241.5	246.7
Total employment	471.6	485.1	501.3	511.0	516.0	522.2	528.4	535.4	544.5	554.7	565.2	576.2
(Percent change)	1.8	2.9	3.3	1.9	1.0	1.2	1.2	1.3	1.7	1.9	1.9	2.0
Prices and costs (percent change)												
GDP deflator	3.9	5.9	6.2	6.9	4.6	3.2	3.3	2.3	2.1	2.1	2.1	2.1
CPI (harmonized), p.a.	0.0	3.5	8.1	2.9	2.3	2.5	4.3	2.0	2.1	2.0	2.0	2.0
CPI core (harmonized), p.a.	1.2	1.5	4.2	3.9	2.5	1.8	1.8	2.1	1.9	2.0	2.0	2.0
CPI (national definition), p.a.	0.8	2.5	6.3	3.7	2.1	2.3	2.6	2.3	2.1	2.0	2.0	2.0
Wage growth 2/	1.1	5.3	4.6	7.5	3.5	4.3	3.5	2.6	2.1	2.3	2.3	2.3
Nominal unit labor costs 2/	3.4	1.3	9.3	9.5	4.1	4.9	3.5	2.2	1.6	2.1	2.2	2.3
Public finances (percent of GDP)												
General government revenues	43.9	43.5	44.5	45.7	47.7	47.1	46.9	47.2	46.4	46.5	46.8	47.0
General government expenditures	47.0	42.4	44.3	46.4	46.8	49.1	48.8	49.2	49.3	50.0	50.6	51.3
General government balance	-3.1	1.1	0.2	-0.7	0.9	-2.0	-1.9	-2.0	-3.0	-3.4	-3.8	-4.2
General government cyclically-adjusted balance	-1.1	1.1	1.0	-0.2	0.0	-2.7	-2.3	-2.5	-3.4	-3.7	-4.0	-4.2
General government structural balance	2.7	2.1	1.9	1.4	0.0	-2.5	-2.3	-2.5	-3.4	-3.7	-4.0	-4.2
General government primary balance	-0.4	1.9	0.7	-0.1	1.1	-2.3	-2.1	-2.1	-2.9	-3.2	-3.5	-3.7
General government gross debt	24.5	24.2	24.9	24.7	26.3	26.5	28.2	29.8	32.0	34.3	36.7	39.2
Balance of Payments (percent of GDP)												
Current account	4.7	5.0	5.4	6.8	7.1	5.3	4.7	4.4	4.3	4.3	4.3	4.3
Balance on goods	3.2	0.2	-0.8	1.5	2.0	2.1	2.1	2.1	2.1	2.2	2.2	2.3
Balance on services	35.7	38.6	37.9	36.7	36.3	33.8	35.1	35.4	35.3	35.2	35.2	35.2
Net factor income	-34.1	-34.0	-31.0	-30.6	-30.6	-29.9	-31.8	-32.3	-32.4	-32.4	-32.4	-32.4
Balance on current transfers	0.0	0.2	-0.7	-0.7	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Exchange rates, period averages												
U.S. dollar per euro	1.14	1.18	1.05	1.08	1.08	1.13	...	...	...	...	...	...
(Percent change)	1.9	3.7	-11.0	2.6	0.0	4.4	...	...	...	...	...	...
Nominal effective rate (2010=100)	103.4	104.0	102.7	105.3	106.3	107.8	...	...	...	...	...	...
(Percent change)	1.7	0.6	-1.3	2.5	1.0	1.4	...	...	...	...	...	...
Real effective rate (CPI based; 2010=100)	101.0	101.2	98.3	98.7	98.6	99.5	...	...	...	...	...	...
(Percent change)	1.4	0.2	-2.9	0.4	-0.1	0.9	...	...	...	...	...	...
Credit growth and interest rates												
Nonfinancial private sector credit (eop, percent change) 3/	5.0	4.8	4.9	-2.9	-5.3	0.8	5.0	4.5	4.7	4.6	4.6	4.5
10-year government bond yield, annual average (percent)	-0.4	-0.4	1.5	3.1	2.7	2.9	...	...	...	...	...	...
Memorandum items: Land area = 2,586 sq. km; population in 2023 = 672,050; GDP per capita = €118,012												
GDP (billions of euro)	64.5	73.0	76.7	82.1	86.2	89.5	93.7	97.5	101.7	106.0	110.4	115.0
Output gap (percent deviation from potential)	-2.1	2.9	0.6	-0.2	-0.5	-0.7	-0.5	-0.2	0.0	0.1	0.0	0.0
Potential output growth	1.9	1.7	1.2	0.8	0.7	0.8	1.0	1.4	1.9	2.0	2.1	2.0

Sources: Luxembourg authorities; IMF staff estimates and projections.

1/ Contribution to GDP growth.

2/ Overall economy.

3/ Including a reclassification of investment companies from financial to non-financial institutions in 2015.

Table 2. Luxembourg: Balance of Payments, 2020–31
(Percent of GDP)

	2020	2021	2022	2023	2024	2025	Projections					
							2026	2027	2028	2029	2030	2031
Current account	4.7	5.0	5.4	6.8	7.1	5.3	4.7	4.4	4.3	4.3	4.3	4.3
Balance on goods and services	38.8	38.7	37.1	38.1	38.3	35.9	37.2	37.4	37.5	37.4	37.4	37.5
Trade balance 1/	3.2	0.2	-0.8	1.5	2.0	2.1	2.1	2.1	2.1	2.2	2.2	2.3
Goods exports	33.6	33.8	36.4	35.3	33.5	32.6	31.5	32.5	33.5	34.5	35.6	36.7
Goods imports	30.4	33.6	37.2	33.9	31.5	30.5	29.4	30.5	31.4	32.4	33.4	34.5
Balance on services	35.7	38.6	37.9	36.7	36.3	33.8	35.1	35.4	35.3	35.2	35.2	35.2
Services exports	170.0	183.4	186.7	182.9	161.3	164.8	164.6	165.3	165.0	165.0	165.1	165.2
Services imports	134.3	144.9	148.8	146.3	125.0	131.0	129.5	129.9	129.7	129.8	129.9	130.0
Net factor income	-34.1	-34.0	-31.0	-30.6	-30.6	-29.9	-31.8	-32.3	-32.4	-32.4	-32.4	-32.4
Compensation of employees, net	-16.0	-16.3	-17.0	-17.5	-17.3	-17.0	-18.6	-18.5	-18.4	-18.4	-18.4	-18.4
Compensation of employees, credit	3.0	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.6
Compensation of employees, debit	19.0	19.0	19.6	20.0	19.8	19.5	21.1	21.1	20.9	20.9	20.9	21.0
Investment income, net	-18.1	-17.7	-13.9	-13.1	-13.4	-12.8	-13.3	-13.8	-14.0	-14.0	-14.0	-14.0
Investment income, credit	370.9	325.7	360.9	401.9	406.3	376.8	362.7	353.4	344.8	337.7	330.9	324.6
Investment income, debit	389.0	343.4	374.8	415.1	419.7	389.6	376.0	367.2	358.8	351.7	344.9	338.6
Balance on current transfers	0.0	0.2	-0.7	-0.7	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Capital and financial account	-4.7	-5.0	-5.4	-6.8	-7.1	-5.3	-4.7	-4.4	-4.3	-4.3	-4.3	-4.3
Capital account	-0.3	-0.8	-1.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Financial account	4.4	4.2	4.2	6.8	7.1	4.9	4.3	4.0	4.0	3.9	3.9	3.9
Direct investment, net	-50.4	189.9	77.5	44.1	121.9	192.9	173.6	156.3	140.6	126.6	113.9	102.5
Abroad	-135.0	104.8	-266.9	-248.6	217.6	98.3	88.8	80.1	72.1	64.9	58.4	52.6
In reporting economy	-84.6	-85.1	-344.4	-292.8	95.7	-94.6	-84.8	-76.2	-68.5	-61.7	-55.5	-50.0
Portfolio investment, net	-8.9	-254.9	-146.4	-63.4	-95.1	-120.5	-120.5	-120.5	-120.5	-120.5	-120.5	-120.5
Portfolio investment, assets	321.8	529.1	-123.7	115.6	207.1	427.1	382.5	367.6	362.7	361.0	360.5	360.3
Portfolio investment, liabilities	330.7	784.1	22.7	179.0	302.2	547.6	503.0	488.1	483.2	481.5	481.0	480.8
Financial derivatives, net	9.2	17.8	0.7	-15.3	-12.0	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2
Other investment, net	54.5	49.2	72.3	41.3	-7.4	-4.3	14.4	31.4	47.0	61.1	73.7	85.1
Other investment, assets	216.4	258.3	-8.2	56.9	39.0	128.8	128.8	128.8	128.8	128.8	128.8	128.8
Other investment, liabilities	161.9	209.1	-80.4	15.5	46.4	133.1	114.4	97.4	81.8	67.7	55.1	43.7
Reserve assets	0.0	2.1	0.1	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: STATEC and IMF Staff calculations.

1/ Includes merchanting trade operations.

Table 3. Luxembourg: General Government Operations, 2020–31
(Percent of GDP)

	2020	2021	2022	2023	2024	2025	Projections					
							2026	2027	2028	2029	2030	2031
Revenue	43.9	43.5	44.5	45.7	47.7	47.1	46.9	47.2	46.4	46.5	46.8	47.0
Taxes	27.2	27.5	27.9	28.5	30.4	29.5	29.3	29.5	28.6	28.6	28.8	29.0
of which, corporate income taxes	4.8	4.5	4.5	4.8	6.5	6.0	5.9	5.8	5.6	5.5	5.4	5.3
of which, personal income taxes	11.1	11.2	11.7	12.6	12.6	11.9	11.9	12.1	11.4	11.6	11.8	12.0
of which, taxes on international trade & of which others	2.2	2.3	2.2	2.3	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
of which others	9.1	9.5	9.6	8.8	8.9	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Social contributions	12.6	11.8	12.1	12.5	12.1	12.6	12.9	13.0	13.1	13.2	13.3	13.4
Grants	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	4.1	4.2	4.4	4.7	5.1	4.9	4.7	4.7	4.7	4.7	4.6	4.6
Expenditure	47.0	42.4	44.3	46.4	46.8	49.1	48.8	49.2	49.3	50.0	50.6	51.3
Expense	44.6	40.6	42.6	44.2	44.6	46.4	46.3	47.0	47.1	47.8	48.4	49.1
Compensation of employees	10.8	10.1	10.4	10.8	11.1	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Use of goods and services	4.3	4.1	4.5	4.5	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Interest	0.2	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.6	0.8	0.9	1.0
Subsidies	1.1	1.0	1.2	1.5	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.1
Social benefits	20.7	18.0	19.0	19.1	19.5	20.1	20.2	21.1	21.4	21.9	22.4	23.0
Other expense	7.5	7.2	7.5	8.1	7.8	8.5	8.1	7.7	7.6	7.6	7.6	7.6
Gross public investment	4.7	4.1	4.3	4.7	4.7	5.0	5.0	4.5	4.5	4.5	4.5	4.5
O/W Net acquisition of nonfinancial assets	2.4	1.8	1.7	2.1	2.2	2.6	2.5	2.2	2.2	2.2	2.2	2.2
Gross operating balance	1.8	5.3	4.6	4.2	5.8	3.4	3.1	2.5	1.5	1.0	0.6	0.2
Net operating balance	-0.7	2.9	1.9	1.5	3.1	0.7	0.6	0.2	-0.8	-1.2	-1.6	-2.0
Net lending / borrowing	-3.1	1.1	0.2	-0.7	0.9	-2.0	-1.9	-2.0	-3.0	-3.4	-3.8	-4.2
Net acquisition of financial assets	-0.2	3.8	3.3	1.0	3.4	-0.1	...	...	...	...	...	...
Monetary gold and SDRs	...	...	...	...	...	...	...	...	...	...	...	...
Currency and deposits	-1.8	2.3	1.2	-1.4	1.9	-1.5	...	...	...	...	...	...
Securities other than shares	1.1	2.0	0.2	1.7	1.3	0.8	...	...	...	...	...	...
Loans	0.0	0.2	0.0	0.1	0.2	-0.1	...	...	...	...	...	...
Shares and other equity	0.5	-1.0	1.0	-0.7	-0.8	0.5	...	...	...	...	...	...
Insurance technical reserves	...	...	...	...	...	...	...	...	...	...	...	...
Financial derivatives	-0.3	0.3	0.2	-0.2	0.1	-0.4	...	...	...	...	...	...
Other accounts receivable	0.2	0.2	0.6	1.6	0.7	0.6	...	...	...	...	...	...
Net incurrence of liabilities	2.9	2.6	3.0	1.8	2.7	1.7	...	...	...	...	...	...
Special Drawing Rights (SDRs)	...	...	...	...	...	...	...	...	...	...	...	...
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Securities other than shares	3.1	3.4	1.9	1.3	2.9	1.1	...	...	...	...	...	...
Loans	-0.2	-0.9	-0.1	0.2	-0.2	0.1	...	...	...	...	...	...
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Financial derivatives	0.0	0.0	0.0	0.0	0.0	-0.1	...	...	...	...	...	...
Other accounts payable	0.0	0.1	1.2	0.3	-0.1	0.6	...	...	...	...	...	...
Memorandum items:												
GDP (in billions of euro)	64.5	73.0	76.7	82.1	86.2	89.5	93.7	97.5	101.7	106.0	110.4	115.0
Structural balance (in percent of GDP)	2.7	2.1	1.9	1.4	0.0	-2.5	-2.3	-2.5	-3.4	-3.7	-4.0	-4.2
Output gap (in percent of potential GDP)	-2.1	2.9	0.6	-0.2	-0.5	-0.7	-0.5	-0.2	0.0	0.1	0.0	0.0
Public gross debt (Maastricht definition)	24.5	24.2	24.9	24.7	26.3	26.5	28.2	29.8	32.0	34.3	36.7	39.2
10-year sovereign bond yield (annual average in %)	-0.4	-0.4	1.5	3.1	2.7	2.9	...	...	...	...	...	...

Sources: Luxembourg authorities; and IMF staff estimates.

Table 4. Luxembourg: Financial Soundness Indicators, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
All Banks								
Capital adequacy								
Regulatory capital to risk-weighted assets	24.8	22.6	24.8	23.9	23.0	24.0	23.0	23.1
Regulatory tier 1 capital to risk-weighted assets	24.0	22.1	22.8	21.9	22.0	22.0	22.0	22.2
Common equity tier 1 to risk-weighted assets								
Capital to assets	8.0	7.4	8.6	7.9	8.0	9.0	9.0	9.3
Profitability and efficiency								
Return on assets	0.6	0.5	0.5	0.6	0.6	1.1	1.2	1.2
Return on equity	7.4	7.4	6.2	5.5	5.0	9.0	9.0	8.6
Interest margin to gross income	27.1	26.7	24.9	21.3	26.0	34.0	36.0	34.3
Trading income to total income	3.5	2.9	1.5	1.5	2.0	1.0	-1.0	0.4
Noninterest expenses to gross income	77.5	78.8	79.5	81.1	77.0	72.0	70.0	70.0
Personnel expenses to noninterest expenses	24.9	25.1	24.2	22.4	22.0	22.0	22.0	22.3
Asset quality and structure								
Residential real estate loans to total loans	6.8	6.9	8.5	13.0 ^{1/}	15.0	15.0	15.0	14.4
Household debt to GDP	59.8	64.3	69.7	71.0	72.0	72.0	72.0	74.1
Nonperforming loans to total gross loans	0.9	0.7	1.0	1.3 ^{1/}	1.6	1.9	2.3	2.3
Nonperforming loans net of provisions to capital	6.4	5.4	6.2	3.7	3.9	5.4	5.4	6.4
Provisions to total non performing loans	27.6	32.8	30.0	51.4	59.8	50.3	50.3	51.3
Sectoral distribution of loans (in percent of total loans)								
Residents	33.7	32.0	36.9	40.4	37.0	37.0	33.0	32.0
Nonresidents	66.3	68.0	63.1	59.6	63.0	63.0	67.0	68.0
Liquidity								
Liquid assets to total assets	24.9	24.7	29.8	32.0 ^{1/}	33.0	32.0	32.0	24.8
Liquid assets to short-term liabilities	34.6	33.2	38.8	35.0 ^{1/}	37.0	36.0	36.0	28.2
Customer deposits to total (non interbank) loans	106.2	107.7	109.0	76.0 ^{1/}	72.0	73.0	77.0	74.9
Liquidity Coverage Ratio				167.6	155.0	165.9	165.9	166.9
Net Stable Funding Ratio				139.2	136.3	135.1	135.1	136.1
Domestically Oriented Banks								
Capital adequacy								
Regulatory capital to risk weighted assets	22.9	22.5	22.9	23.1	23.0	23.0	23.0	24.0
Regulatory tier 1 capital to risk weighted assets	22.1	21.8	22.2	22.4	22.0	23.0	23.0	23.0
Capital to assets	8.8	8.7	8.9	8.7	9.0	9.0	9.0	10.0
Profitability and efficiency								
Return on assets	0.8	0.7	0.7	0.8	0.8	1.2	1.1	1.2
Return on equity	8.8	8.6	7.6	9.0	10.0	8.0	7.0	7.0
Interest margin to gross income	52.8	51.5	52.2	47.6	52.0	57.0	58.0	63.0
Asset quality and structure								
Residential real estate loans to total loans	24.9	25.6	28.0	36.7	37.0	37.0	37.0	37.0
Sectoral distribution of loans (in percent of total loans)								
Residents	67.5	71.0	76.4	80.9	82.0	82.0	81.0	80.0
Nonresidents	32.5	29.0	23.6	19.1	18.0	18.0	19.0	20.0
Liquidity								
Liquid assets to total assets	20.9	23.4	24.0	29.1	28.0	29.0	30.0	26.0
Liquid assets to short-term liabilities	28.0	30.7	32.3	32.9	32.0	33.0	35.0	31.0
Customer deposits to total (non interbank) loans	112.0	108.1	99.0	87.5	89.0	88.0	92.0	92.0
Sources: BCL, and CSSF.								

Annex I. Implementation of Past IMF Advice

IMF Advice	Progress/Comments
Fiscal	
<i>Short term.</i> Adopt a less expansionary fiscal stance and review the effectiveness and targeting of support measures, while allowing automatic stabilizers to operate if downside risks materialize.	The 2026 stance is expected to be broadly neutral, which is appropriate given cyclical conditions, but the spending increase is mainly driven by current expenditure.
<i>Medium term.</i> Underpin the medium-term expenditure path with measures, including by containing the wage bill, improving the targeting and efficiency of social spending, diversifying revenue sources, and strengthening the fiscal framework. Expediting pension reform would help support long-term sustainability and intergenerational equity.	The medium-term fiscal outlook has worsened amid rising expenditure and softening revenue growth. The wage bill will remain elevated, while there is little progress on improving targeting and efficiency of social spending. The 2026 pension reform is a welcome step to improve social security balances, but it does not fully address long-term sustainability. The planned individual taxation reform in 2028 is estimated to cost around 1 percent of GDP annually.
Financial Sector	
<i>Risks.</i> Maintain close monitoring of risks stemming from the real estate sector and broader financial system, including vulnerabilities related to corporates and households, as well as to uncertainty, market volatility, and domestic and international interconnectedness.	Monitoring has remained active as real estate risks eased, with granular analyses of vulnerabilities in corporates and real estate markets, including model-based assessments of price misalignment in the residential real estate market. Very granular analyses of exposures as well as domestic and cross-border interdependencies of investment funds have been added to the systemic risk assessment framework. Supervisors have broadened system-wide stress testing and analysis of bank–fund interconnectedness, supporting surveillance amid heightened uncertainty, market volatility.
<i>Supervision.</i> Supervisors should ensure robust risk management and close oversight of banks in terms of asset quality, provisioning, and solvency and of non-banks in terms of liquidity and leverage.	Supervision is being strengthened. This includes higher provisioning and supervisor-led stress tests for banks embedding both solvency and liquidity risks and for investment funds incorporating a wide range of shocks focused on liquidity and leverage risks. However, vulnerabilities remain: pockets of weak bank credit risk practices and comparatively lower liquidity/funding ratios, and limited leverage pockets in some funds.
<i>Macroprudential framework.</i> Continuing strengthening the macroprudential framework in line with evolving risks, including through further development of systemic risk analysis, higher releasable capital buffers as the cycle recovers, and the early introduction of income-based borrower-based measures.	The authorities have further strengthened the analytical toolkit, including system-wide stress testing of banks and investment funds, but key extensions remain pending (notably to insurance). As the cycle turns, releasable buffers are unchanged. Explicit income-based borrower measures have not been implemented. The stress test on residual income and interest rate assuming a 200-basis point increase in the interest rate on new borrowers' capacity to repay has been added to the toolkit.
<i>Follow up on FSAP recommendations.</i>	The majority of key recommendations have been implemented (Annex VIII).

IMF Advice	Progress/Comments
Structural	
<i>Productivity.</i> Promote private sector-led, productivity-driven growth by strengthening innovation support, accelerating digital and AI diffusion, improving access to finance for innovative firms, facilitating efficient firm exit, and reducing administrative and regulatory burdens.	The authorities increased the investment tax credit and expanded support for innovation projects, helping advance the digital and green transition. However, broader deregulation and administrative simplification remain limited.
<i>Labor market.</i> Accelerate labor market reforms to raise participation, reduce skill mismatches, and improve labor market flexibility, including by adapting education and training systems to evolving needs, expanding reskilling and upskilling, facilitating labor supply, and making wage-setting arrangements less distortive.	The authorities launched a program (Skills-Plang) to support firm-level training and retraining, while the pension reform and planned move to single-class taxation should raise labor participation, including for older workers and second earners. Automatic wage indexation remains largely unchanged.
<i>Housing market.</i> Address housing market imbalances by rebalancing policies toward supply-side measures, withdrawing untargeted demand-side support, and mobilizing land and housing stock.	Some demand-side housing support was phased out in 2025. Supply-side action remains the main gap: the planned land tax reform is a step in the right direction; however, it needs to be accelerated, and stronger central oversight of local planning is still needed to mobilize land and housing stock.

Annex II. External Sector Assessment

Overall Assessment: Based on staff's estimates, the external position of Luxembourg in 2025 is assessed to be broadly in line with the level implied by fundamentals and desirable policies. This assessment is based on the EBA-lite quantitative models, as well as strong international investment positions and flows, given Luxembourg's role as a financial hub. The assessment is complicated by data discrepancies and revisions (Annex VII).

Potential Policy Responses: Policies should focus on preserving the "broadly in line" position by (i) frontloading pension and structural fiscal reforms to raise labor participation and incomes over the medium-term, and (ii) re-allocating spending toward productivity investments in affordable housing, infrastructure, digitization, and green transition.

Foreign Assets and Liabilities: Position and Trajectory

Background. Luxembourg's net international investment position (NIIP) declined in 2025 to 28.0 percent of GDP from 39.7 percent in 2024, consolidating the downward trend recorded after peaking at 74.1 percent of the GDP in 2014. The decline in 2025 mostly reflects the larger debtor position in portfolio investment by 90.6 percent of GDP, that was not offset by the increase in net direct investment (137.3 percent of GDP) reaching an all-time high position in the year. Net stocks in other investments also deteriorated by 52.8 percent of GDP, reflecting the ongoing normalization of ECB's monetary policy and the decline of central bank's assets on the Target2 system by 32.9 percent of GDP.

Assessment. Projections of continued CA surpluses over the medium term suggest that the NIIP will recover gradually to its pre-pandemic level. Given sizeable gross international stocks and statistical accountability issues, changes in the net position are exposed to valuation effects. The large and positive NIIP and its trajectory do not raise sustainability concerns, but the dominance of portfolio equity and investment funds makes the external position more exposed to valuation and market risk.

2025 (%) GDP)	NIIP: 28.0	Gross Assets: 15079.6	Debt Assets: 3492.5	Gross Liabilities: 15051.6	Debt Liabilities: 1128.8
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Current Account

Background. The CA surplus is estimated to have eased to 5.3 percent of GDP in 2025 from 7.1 percent in 2024.¹ This development was driven primarily by a lower surplus of the service balance (-2.5 percentage points of GDP) resulting from a larger increase of import than export flows. Investment income transactions, both credits and debits, were lower in 2025 by around 30 percent reflecting easing financial conditions in the year. Overall, the current account continued normalizing in 2025 following post-pandemic effects that triggered a rebound in the external balance of services and a deterioration of the goods balance. In addition, in recent years the negative correlation between the balance of services and net income has decreased mainly because of higher income from MNEs' FDI that is very volatile.

Assessment. The cyclically-adjusted CA balance is estimated at 5.2 percent of GDP in 2025. This assessment is based on the quantitative External Balance Assessment (EBA-lite), supplemented by staff

judgment. The EBA-lite model only partially captures Luxembourg's specific circumstances as a financial center, including a large investment fund industry and a very small open economy with a large share of non-resident workers (commuters). Exports and imports of financial services which drive Luxembourg's current account are less sensitive to relative price changes and are mainly driven by large and volatile income from FDI, and the large number of non-resident workers affects net factor income and population-based variables in the models. As in previous years, the EBA-lite explanatory variable "output per worker" is adjusted to reflect that around 44 percent of Luxembourg's labor force is non-resident. Even after this adjustment, the CA norm estimated using EBA-estimated coefficients should be viewed with caution since Luxembourg, being an outlier along many dimensions, is not in the EBA sample. The BOP statistics are subject to large revisions, which add uncertainty to the assessment. Finally, the EBA is a medium-term assessment tool and does not take into account the country's long-term fiscal sustainability challenges due to aging costs, which require higher savings (more prudent fiscal policy in the near-term). With these caveats in mind, the EBA CA gap is 0.5 percent of GDP, which includes a policy gap of 1.4 percent of GDP. The identified policy gap reflects a fiscal stance looser than the country-specific norm, but not relative to the average world fiscal stance. It should be noted however that over the longer term the CA surplus will narrow because of rising aging costs (+2 ½ percent of GDP and +5 percent of GDP, respectively by 2040 and 2050) that are not accounted for by the CA norm calculated at the desired medium-term policy levels. Pension reforms should therefore be frontloaded to reduce fiscal pressures in the long term.

Luxembourg: EBA-lite Model Results, 2025		
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	5.3	
Cyclical contributions (from model) (-)	0.1	
Adjusted CA	5.2	
CA Norm (from model) 3/	8.9	
Adjustments to the norm (+) 2/	-4.1	
Adjusted CA Norm	4.7	
CA Gap	0.5	3.1
o/w Relative policy gap	1.4	
Elasticity	-1.4	
REER Gap (in percent)	-0.3	-2.3
1/ Based on the EBA-lite 3.0 methodology		
2/ Additional adjustment to account for the high share of commuters and activity of MNEs and financial services that impact the services and the primary income		
3/ Cyclically adjusted, including multilateral consistency adjustments.		

¹ BOP data are subject to large revisions (e.g., in 2024, the large revision from 13.8 to 7.1 percent of GDP was related to services and primary income balances, resulting from the MNE operations reclassification). There is also an increasing inconsistency in the balance of goods and services between the BOP and national accounts starting in 2020.

Real Exchange Rate

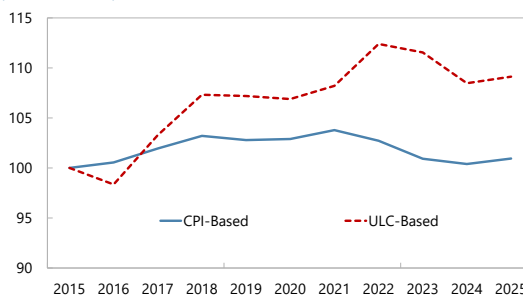
Background. The average real effective exchange rates (REER) based on CPI and ULC appreciated by around 0.55% in 2025, following two years of depreciation. In terms of levels, the CPI-based reference

remained well below pre-pandemic averages, while the ULC-based remained high, dragged by low productivity growth not offsetting wage growth.

Assessment. The staff-assessed CA gap implies a REER undervaluation of 0.3 percent. The REER index model suggests an undervaluation of 2.3 percent, which includes a policy gap of 6 percent.

Real Effective Exchange Rate

(Index, 2015=100)



Sources: European Commission and IMF staff calculations
Notes: REER estimated by the EC based on 37 trade partners (EU27, Australia, Canada, Japan, Mexico, New Zealand, Norway, Switzerland, Turkey, UK and USA).

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account surplus is estimated to narrow from 7.1 percent of GDP in 2024 to 4.9 percent of GDP in 2025. This resulted from the increase in net capital inflows in financial derivatives (51.2 percent of GDP) and portfolio investments (25.3 of GDP), stronger than the increase in net capital outflows in FDI (71.0 percent of GDP). The capital account turned into a deficit at 0.4 percent of GDP after two years balanced.

Assessment. Risks are limited, given the strength of Luxembourg's external position, the composition of NIIP by instruments and a solid position as a financial hub.

FX Intervention and Reserves Level

Background. The euro has the status of global reserve currency.

Assessment. Reserves held by euro area countries are typically low relative to standard metrics. The currency is free floating.

Sources of Risks	Relative Likelihood	Impact if Realized	Policy Response
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	High. Disruptions to payments, data, and critical services could trigger market stress, undermine confidence in the financial center, interrupt cross-border operations, and impose sizable fiscal and output losses through recovery costs.	<ul style="list-style-type: none"> • Advance crisis preparedness to cyberattacks, strengthen cyber hygiene, incident reporting, and supervision of banks and critical third parties. • Continue to enhance information sharing, law enforcement cooperation, and operational resilience for payments and data infrastructure.
AI Acceleration. Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions.	Medium	Medium. Faster productivity lifts output and incomes, but strains electricity grids, raises demand for data centers and skills, and may widen inequality and transitional unemployment across sectors.	<ul style="list-style-type: none"> • Expand clean power and grid capacity; streamline permitting for data centers; secure critical inputs. • Strengthen competition and innovation policies. • Scale up reskilling, portable benefits, and active labor market programs to facilitate transitions
Domestic Risks			
Correction of the real estate market. Confidence in real estate developers might not return to the new housing market segment, weighing on activity and employment on construction sector.	Medium	Medium. Stalled recovery in the real estate market would weigh on growth, dampen confidence in real estate developers and raise unemployment. It also poses risks to the financial sector through higher NPLs and lower collateral value.	<ul style="list-style-type: none"> • Continue vigilance and close monitoring of risks in the residential and commercial real estate sector, ensure adequate provisioning and collateral valuation. • Maintain sufficient level of loss-absorption capacity. • These risks are mitigated by high capital buffers, households' high level of income and financial wealth, as well as automatic stabilizers.
Changes in international corporate taxation and other risks to fiscal revenue.	Medium	High/Medium. International and EU-level tax reforms could reduce corporate tax and related receipts, widen deficits, and constrain spending. Volatile financial-sector income and cross-border workers add revenue uncertainty.	<ul style="list-style-type: none"> • Broaden and diversify the tax base (property, environmental) and reduce reliance on concentrated tax base. • Strengthen revenue forecasting and risk monitoring, build buffers, and phase reforms to preserve competitiveness.

Annex IV. Sovereign Risk and Debt Sustainability Analysis

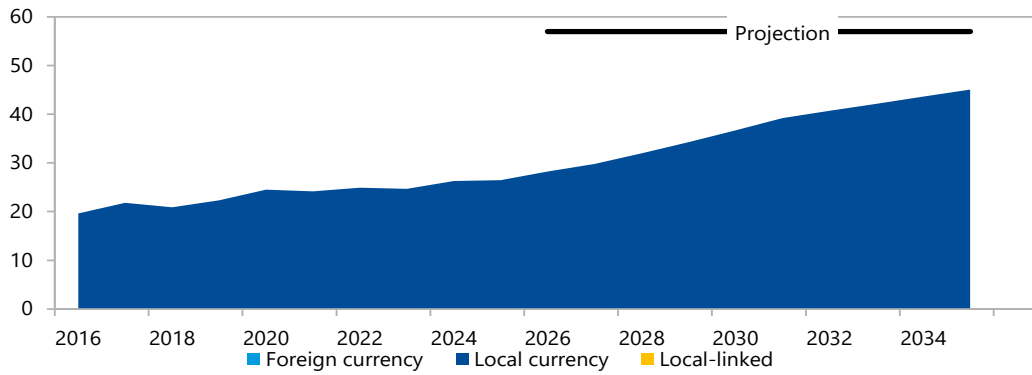
Annex IV. Figure 1. Luxembourg: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low in the near term. In the medium term, debt is expected to continue to increase under current policy. Some idiosyncratic risks related for example to changes in international taxation and spending pressures on defense, digital and climate transformation may be higher than expected, which calls for prudent spending. The recent pension reform could help improve the social security balances in the near term; however, it is insufficient to ensure long-term sustainability.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low against a mechanical low signal as well as the strength of institutions, the depth of the investor pool, and adequate fiscal resources.
Fanchart	Low	...	
GFN	Low	...	
Stress test		...	
Long term	...	Moderate	The 2026 pension reform would delay the depletion of pension reserve fund by 4 years to 2048, and delay reserve below the threshold of 1.5 times the annual pension expenditure to 2042, but falls short of fully addressing long-term sustainability.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not applicable.
Debt stabilization in the baseline			No
DSA Summary Assessment			
<p>Commentary: Luxembourg is at a low overall risk of sovereign stress and debt is sustainable. While fiscal balance deteriorates amid revenue growth slowdown and increasing spending pressure, there is still ample fiscal space, though narrowing. Public debt remains at low levels and is projected to increase to around 39 percent of GDP over the medium-term. Medium-term liquidity risks as analyzed by the GFN Financeability Module are low. Over the longer run, Luxembourg should continue with prudent fiscal policy measures and structural reforms to support growth.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Annex IV. Figure 2. Luxembourg: Debt Coverage and Disclosures

Annex IV. Figure 2. Luxembourg: Debt Coverage and Disclosures										Comments				
1. Debt coverage in the DSA: 1/														
			CG	GG	NFPS	CPS	Other							
1a. If central government, are non-central government entities insignificant?										n.a.				
2. Subsectors included in the chosen coverage in (1) above:														
Subsectors captured in the baseline										Inclusion				
CPS	NFPS	GG: expected	CG	1	Budgetary central government					Yes	Not applicable			
				2	Extra budgetary funds (EBFs)					No				
				3	Social security funds (SSFs)					Yes				
				4	State governments					Yes				
				5	Local governments					Yes				
				6	Public nonfinancial corporations					Yes				
				7	Central bank					Yes				
				8	Other public financial corporations					Yes				
3. Instrument coverage:														
				Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/						
4. Accounting principles:														
				Basis of recording		Valuation of debt stock								
				Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/						
5. Debt consolidation across sectors:														
						Consolidated	Non-consolidated							
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable														
Reporting on Intra-Government Debt Holdings														
				Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total	
CPS	NFPS	GG: expected	CG	1	Budget. central govt								0	
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
Total					0	0	0	0	0	0	0	0	0	
<p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.</p> <p>2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.</p> <p>3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.</p> <p>4/ Includes accrual recording, commitment basis, due for payment, etc.</p> <p>5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).</p> <p>6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.</p> <p>7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p>														
<p>Commentary: Debt/GDP for the DSA is projected based on the stock of General Government debt in 2024, but evolves from 2025 according to Central Government flows, given the social security surplus.</p>														

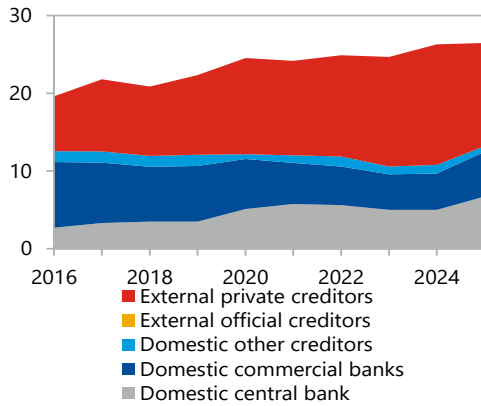
Annex IV. Figure 3. Luxembourg: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



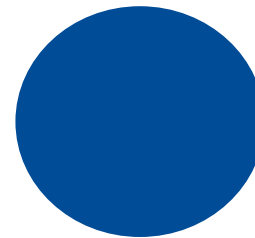
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



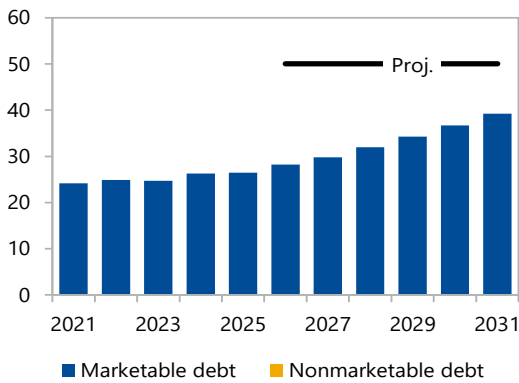
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (Percent)



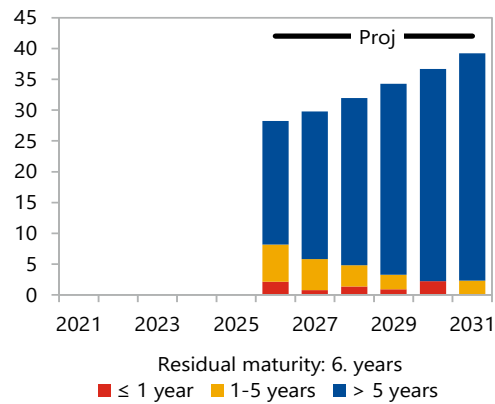
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



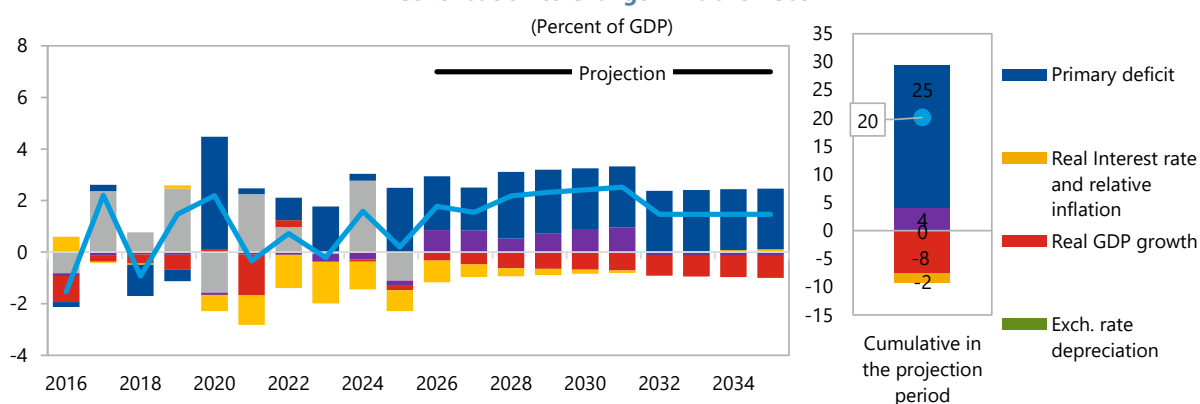
Note: The perimeter shown is general government.

Commentary: The debt is held exclusively by external private creditors and is held in domestic currency limiting exchange rate risk. With the bulk of the debt having a maturity > 5 years, the impact of the current increase in interest rates will only be felt gradually.

Annex IV. Figure 4. Luxembourg: Baseline Scenario
(Percent of GDP unless indicated otherwise)

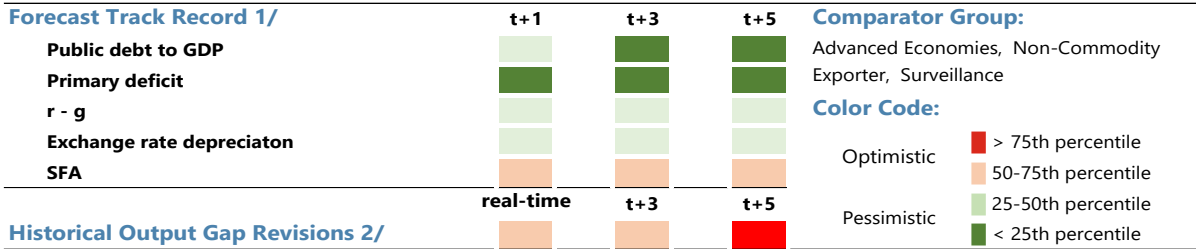
	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	26.5	28.2	29.8	32.0	34.3	36.7	39.2	40.7	42.1	43.6	45.1
Change in public debt	0.2	1.8	1.5	2.2	2.3	2.4	2.5	1.5	1.5	1.5	1.5
Contribution of identified flows	1.3	1.8	1.5	2.2	2.3	2.4	2.5	1.5	1.5	1.5	1.5
Primary deficit	2.5	2.1	1.7	2.6	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Noninterest revenues	32.1	32.4	32.7	31.7	31.9	32.4	32.4	32.4	32.4	32.4	32.4
Noninterest expenditures	34.6	34.5	34.4	34.3	34.4	34.8	34.8	34.8	34.8	34.8	34.8
Automatic debt dynamics	-1.0	-1.2	-1.0	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Real interest rate and relative inflation	-0.8	-0.8	-0.5	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.1	0.1
Real interest rate	-0.8	-0.8	-0.5	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.1	0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.2	-0.3	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.2	0.9	0.8	0.5	0.7	0.9	1.0	-0.1	-0.1	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Other transactions	0.0	1.0	1.0	0.7	0.9	1.1	1.1	0.0	0.0	0.0	0.0
Contribution of residual	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	4.0	3.7	3.7	3.6	4.9	4.8	6.7	5.3	6.1	6.6	7.2
of which: debt service	1.7	1.8	2.2	1.2	2.6	2.6	4.5	3.1	3.9	4.4	5.0
Local currency	1.7	1.8	2.2	1.2	2.6	2.6	4.5	3.1	3.9	4.4	5.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	0.6	1.2	1.7	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	3.2	3.3	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	3.9	4.6	4.1	4.3	4.2	4.2	4.1	4.1	4.1	4.1	4.1
Effective interest rate (percent)	0.0	0.0	0.5	1.1	1.3	1.6	1.9	2.2	2.2	2.3	2.4

Contribution to Change in Public Debt

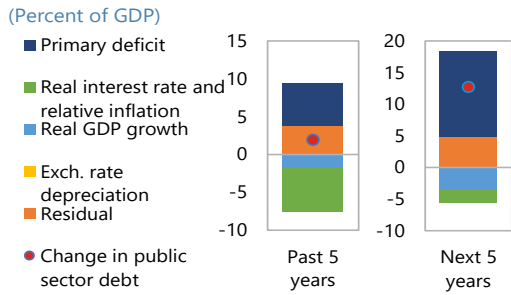


Commentary: Public debt will gradually rise but is sustainable, reflecting expectations of a narrowing of primary deficits and stable economic conditions.

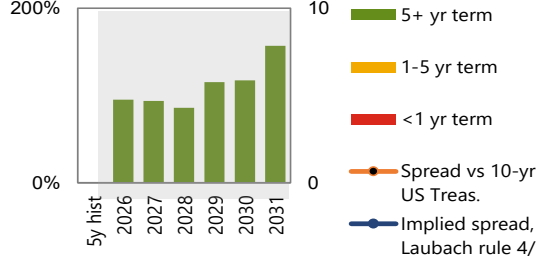
Annex IV. Figure 5. Luxembourg: Realism of Baseline Assumptions



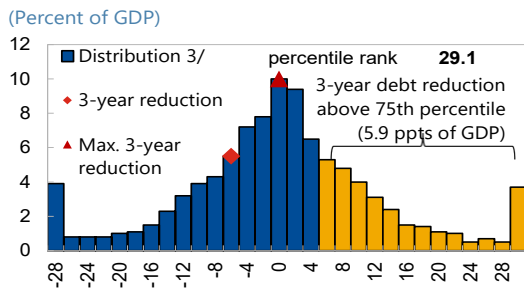
Public Debt Creating Flows



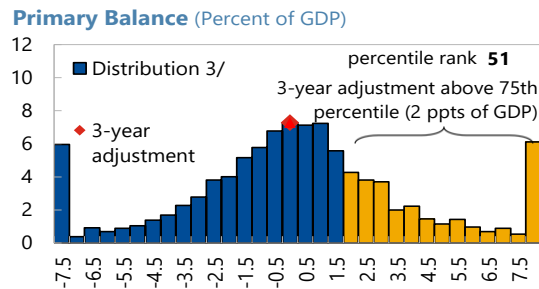
Bond Issuances



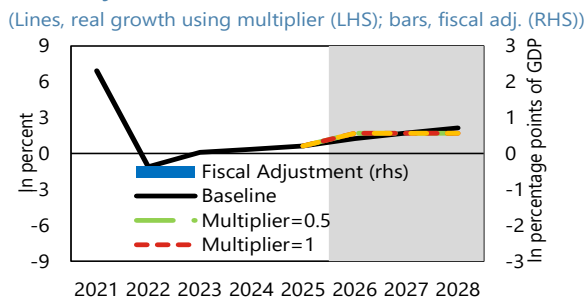
3-Year Debt Reduction



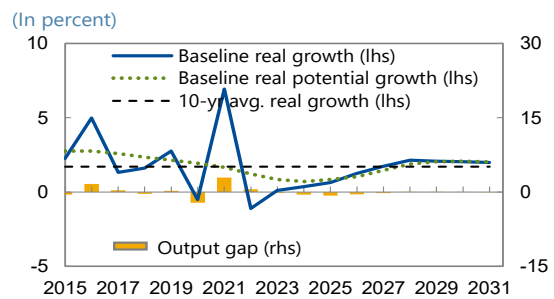
3-Year Adjustment in Cyclically-Adjusted



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: The realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt evolution are well within norms.

Source : IMF Staff.

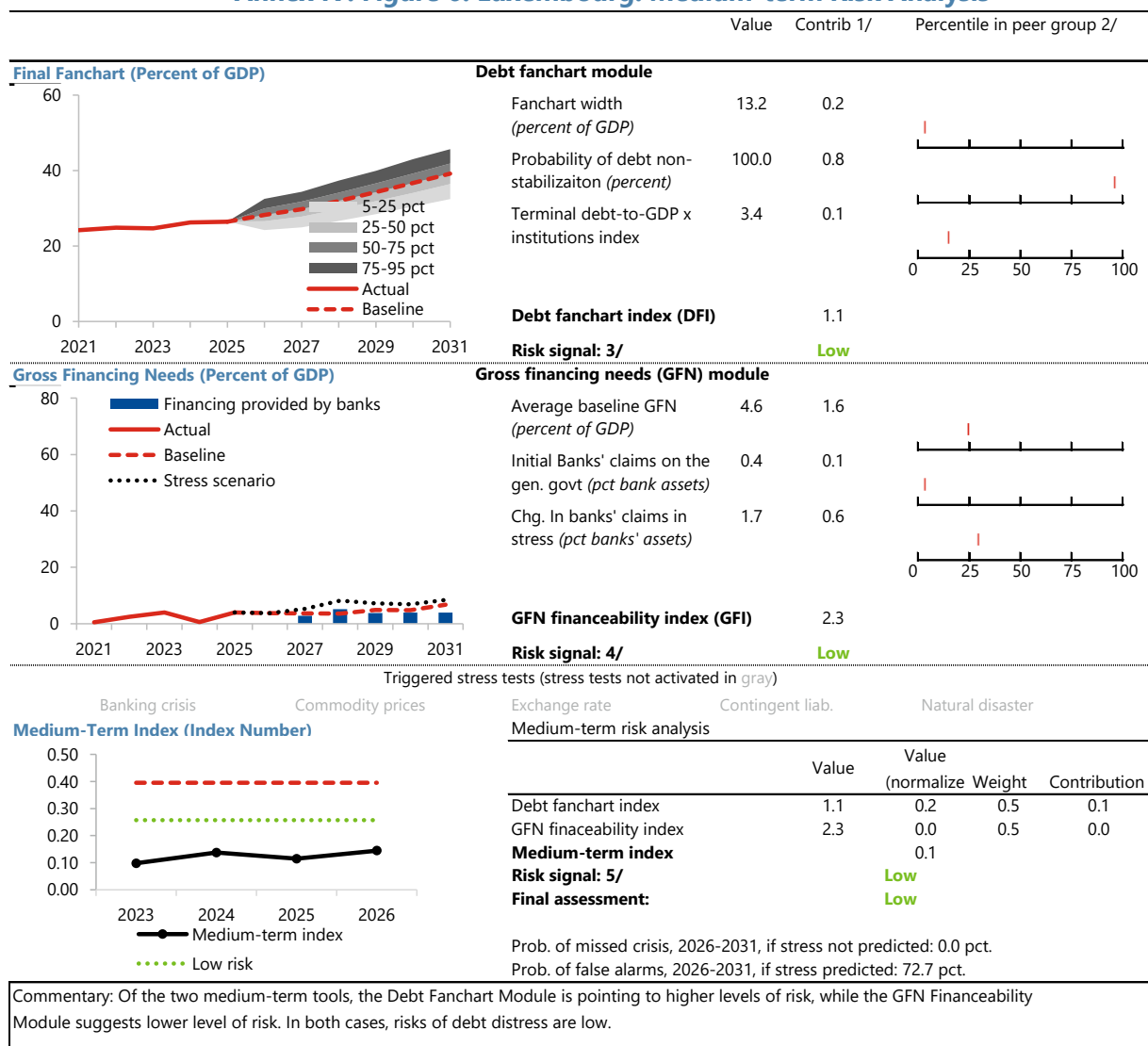
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex IV. Figure 6. Luxembourg: Medium-term Risk Analysis



Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex V. Individual Taxation Reform

Luxembourg moved forward in January 2026 with its long-awaited reform of personal income taxation, which introduces a single tax class for all taxpayers from 2028 with a 25-year transitional period, along with enhanced family and children benefits. This reform package is expected to increase labor force participation and boost purchasing power. However, measures would be needed to mitigate revenue loss and meet increase spending pressure.

1. In January 2026, Luxembourg’s government unveiled a comprehensive tax reform and family support package “Mateneen. Fir all Famill. Fir all Kand.” This package comprises three parts: i) the introduction of a single tax class; ii) enhanced benefits for families and iii) reform of the childcare service voucher (Chèque-Service Accueil, CSA).

1) Individual taxation reform.

- *Single tax class.* The cornerstone of the reform is the introduction of a single personal income tax class for all taxpayers from 1 January 2028, eliminating multiple tax classes and joint taxation benefits for married couples. Couples married or in civil partnerships before 2028 have a 25-year transition period. The tax-exempt threshold is doubled to 26,650 euros per taxpayer, reducing effective taxation for low- and middle-income earners. Additionally, the reform proposes to introduce an indexation of tax brackets following every three wage indexations.
- *Higher tax-deductible limits.* Meanwhile, several tax deduction ceilings are increased: i) the annual deductible limit for consumer loan interest and insurance premiums rises from 672 to 900 euros; ii) the cap on deductible contributions to a home-savings schemes increases to 1,500 euros (from 1,344) for young adults and to 900 euros (from 672) for others; iii) the flat deduction for household help, dependent care, and childcare expenses is raised to 6,000 euros per year, up from 5,400 euros.
- *More support for parents.* The reform also introduces a “early childhood” tax allowance of 5,400 euros per year for each child under 3 years old. Meanwhile, single parent tax credit rises from 3,504 euros to 4,008 euros per year. The allowance for a child not part of one parent’s household is raised from 5,424 euros to 5,928 euros.

2) Enhanced family support. Besides the tax reforms, direct family benefits are significantly raised. Monthly allowances increase by 45 euros for children up to age 12 and by 60 euros for older children, with monthly benefits now exceeding 350 euros per child. A new education allowance, up to 3,000 euros annually per child, targets low-income families with school-age children. The back-to-school allowance grows by 60 euros for ages 6–11 and by 90 euros for ages 12 and above. Going forward, this school allowance, the special supplemental allowance for disabled children, and birth grants will all be automatically indexed to inflation.

3) Reform of the childcare service voucher. All childcare providers are now charged with uniform pricing by hours used, not on a fixed number of hours. Children aged 1–4 get 20 free childcare

hours weekly with licensed day-nannies. Households with an income of 3.5 times or less the social minimum wage will receive targeted financial relief.

2. The reform is expected to have a positive impact on labor supply by incentivizing labor participation by secondary earners. Luxembourg has a gender gap in employment: in 2025, about 70.5 percent of women were employed vs. 77.3 percent of men. This gap is partly attributed to disincentives for married women in the tax-benefit system, alongside limited part-time opportunities and a tradition of single-earner families. This reform will eliminate the structural bias benefiting couples with large earnings disparities, under which secondary earners can face higher marginal tax rates because their income is added to the primary earner's income, creating disincentives to enter work or increase working hours. According to a recent study on Luxembourgish households, the individual taxation system could increase work incentives of married women by 2.3 percent on the intensive margin and 2.6 percent on the extensive margin.¹ However, the exceptionally long transition period means the change could be slow moving as many existing one-earner couples will likely continue with joint taxation.

3. Meanwhile, reduced tax bills with enhanced social benefits could boost household purchasing power. The government estimates that the implementation of a single personal income tax bracket (with a tax-free threshold of 26,650) would reduce the average tax bill for an individual by 33 percent, and for a dual-income family by 49 percent, indicating a large aggregate cut. The improved family benefits and childcare support measures complement the tax changes to lower childcare costs and strengthen purchasing power, which could contribute to growth.

4. This reform package is estimated to cause significant revenue loss and add to spending pressure. The personal income tax reform is the primary component of the reform package, which includes the introduction of a new single tax schedule, doubling of the zero-tax threshold, and new tax deductions. These measures are projected to result in a revenue loss estimated at 880–990 million euros (around 1 percent of GDP) starting in 2028 annually. Additionally, the expanded family allowance and reform of the childcare service voucher are mostly effective from 2027, which are expected to cost around 420 million euro (around 0.5 percent of GDP) per year and increase social spending permanently.

5. No compensatory measures have been identified, while the introduction of bracket indexation limits collection of more revenue through a stealth tax. The government is tentatively considering delaying income tax bracket adjustment to match the pre-2028 inflation, which could generate around 450–500 million euros revenue, to mitigate the cost. However, if the reform implements tax bracket indexation, in line with staff's recommendation, future measures to enhance revenues become important, including narrowing reduced VAT rates and improving recurrent property taxation.

¹ See Islam et.al, 2020, "Making the switch from joint to individual taxation in Luxembourg. Cost, behavioral response and welfare effects", Liser [Working Paper](#).

Annex VI. AI and Labor Market

Artificial intelligence (AI) is expected to exert a broad and heterogeneous impact on Luxembourg's labor market, with important implications for employment, wages, and productivity growth. Luxembourg's high-income, service-oriented economy—characterized by a strong financial sector, high wages, and a large cross border workforce—is among the most exposed to AI in Europe. While AI adoption is likely to deliver productivity gains over the medium term, it also raises adjustment challenges for specific groups of workers, notably those in routine intensive and mid skill occupations.

Exposure, Employment and Distributional Effects

1. **Exposure to AI is very high with significant variations across industries.** Recent STATEC report (2025) indicates that around 90 percent of workers in Luxembourg are exposed to AI.¹ Exposure is predominantly complementary: about 55 percent of workers are in occupations where AI is expected to augment tasks, enhancing productivity rather than replacing labor. At the same time, around 14 percent of jobs are classified as automatable. Administrative support occupations face the highest automation risk, while managers and intellectual or scientific professions face very low automation risk and are primarily in the “augmented” category. By sector, finance, ICT, and professional services are highly exposed but largely in an augmenting way, while trade, hospitality, and parts of public administration exhibit higher shares of potentially automatable jobs.
2. **Impact is also uneven across demographic groups and residential status.** Women face a higher automation risk (around 18 percent) than men (about 11 percent), reflecting their greater concentration in clerical and service occupations.² Younger workers are also more exposed, as entry-level jobs are more likely to be affected. Education is a key buffer: workers with only secondary education face the highest automation risk, whereas workers with tertiary education, especially at the master's level or above, are mostly in AI-complementary occupations. Moreover, Luxembourg residents face a higher share of automatable jobs than foreign residents and cross-border commuters, largely because nationals are more concentrated in administrative occupations.
3. **AI could cause large disruption for certain groups.** Historical experience suggests that technological change tends to reallocate labor rather than reduce total employment over the long run. However, transitional effects could be significant, particularly for routine-intensive, middle-skill jobs.³ Demand for AI-specific skills has not clearly translated into net job creation, and may coincide with employment declines in occupations with high exposure and low complementarity.
4. **Wage gains are heterogenous, implying more wage dispersion in Luxembourg.** Jobs requiring new (including AI-related) skills command wage premia, while the diffusion of such skills is

¹ STATEC, “Impact of AI on the Luxembourg labor market”, 2025.

² STATEC, 2025.

³ Jaumotte, Florence et al., 2026. “Bridging Skill Gaps for the Future: New Jobs Creation in the AI Age”, Staff Discussion Notes 2026/001, International Monetary Fund.

associated with higher wages.⁴ Meanwhile, gains have been uneven: high-skill workers benefit most directly, while middle-skill workers see fewer gains, reinforcing polarization. In Luxembourg, high-skill workers in finance, ICT, and professional services are well positioned to capture AI-related productivity gains, while workers in clerical, sales, and routine service face higher adjustment risks.

Productivity Gains and Uncertainty

5. Luxembourg is poised for high AI-driven productivity gains. AI adoption is expected to support Luxembourg's productivity and growth. One recent analysis estimates that medium-term (five-year) cumulative TFP gains from AI in Luxembourg could reach around 2 percent in a preferred scenario, almost double the European average.⁵ These relatively strong gains reflect Luxembourg's high wage levels—which increase incentives for AI adoption—and its concentration in AI-exposed service sectors such as financial services. Under more optimistic assumptions about AI capabilities and adoption, productivity gains could be significantly larger.

6. Regulatory constraints matter. At the same time, the analysis suggests that the combined effects of occupation-level regulation, data-privacy rules, and the EU AI Act could materially reduce realized productivity gains if they significantly constrain AI use in high-exposure sectors. This highlights a trade-off between safeguarding public interests (safety, privacy, trust) and maximizing productivity benefits of AI.⁶

7. Considerable uncertainty surrounds the pace and nature of AI diffusion.⁷ Rapid adoption could exacerbate short-term labor-market disruptions if skills adjustment lags, while slower diffusion would ease transitions but delay productivity gains. Outcomes will also depend on the balance between automation and complementarity across tasks and occupations, as well as the extent to which new jobs and tasks emerge to absorb displaced workers. Luxembourg's openness and reliance on cross-border labor may help smooth adjustment but could also transmit shocks across borders.

Policy Implications

8. To maximize AI-driven growth while ensuring inclusive outcomes, policy priorities should focus on enabling skill adjustment and more broad-based technology diffusion:

- *Education and reskilling.* Expand lifelong learning and reskilling programs, with a strong emphasis on digital and AI-user skills across all fields of study. Integrating AI literacy beyond ICT and strengthening STEM education would help broaden the pool of AI-complementary workers.

⁴ Jaumotte, Florence et al., 2026.

⁵ Misch, Florian et al., 2025. "Artificial Intelligence and Productivity in Europe." IMF Working Paper No. 25/067, International Monetary Fund.

⁶ Misch, Florian, et al., 2025.

⁷ See Jaumotte, Florence et al., 2026 and Misch, Florian, et al., 2025.

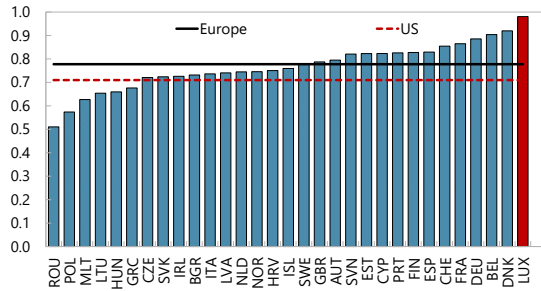
- *Active labor market policies.* Target support to workers in routine-intensive and mid-skill occupations, including tailored retraining, job-matching assistance, and support for occupational mobility. Youth-focused programs (apprenticeships, digital traineeships) are critical to avoid scarring effects. Given the large share of cross-border workers, strengthen cooperation with neighboring countries on skills development, certification, and training portability to ensure an adequate supply of AI-relevant skills.
- *Firm adoption and diffusion.* Support AI uptake among SMEs through incentives for technology adoption and worker training, ensuring that productivity gains are not confined to large firms or a few sectors.
- *Regulatory balance.* Implement AI regulation in a risk-based and proportionate manner, preserving trust and safety while avoiding unnecessary barriers to productivity-enhancing adoption, particularly in high-value service sectors.

Overall, AI provides Luxembourg a promising opportunity to lift productivity and sustain growth, but realizing these gains will require proactive policies to manage labor-market transitions and ensure that benefits are broadly shared.

Annex VI. Figure 1. Luxembourg: AI and Labor Market

Productivity Gains in Europe and the US Compared

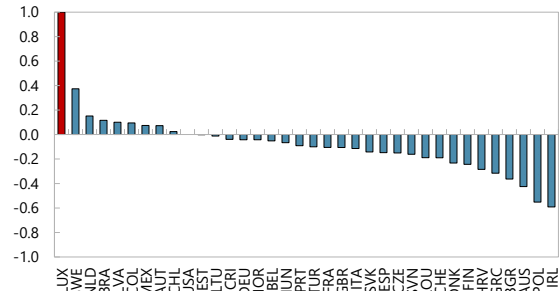
(Percent, 5-year TFP gain)



Sources: Misch, Florian, Ben Park, Carlo Pizzinelli and Galen Sher, 2025. "Artificial Intelligence and Productivity in Europe." IMF Working Paper No. 25/067, International Monetary Fund; Eurostat, EU LFS, EU SILC.

Skill Imbalance Index

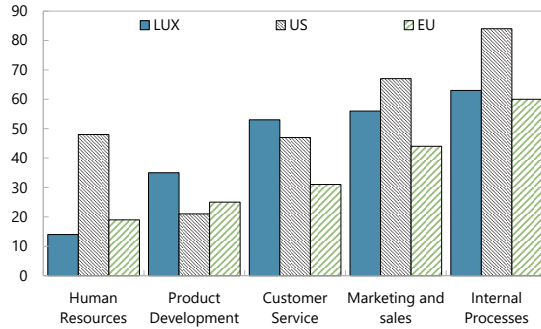
(Index -1 to 1)



Sources: Jaumotte, Florence et al., 2026. "Bridging Skill Gaps for the Future: New Jobs Creation in the AI Age", Staff Discussion Notes 2026/001, International Monetary Fund; Lightcast, OECD, ILO, PIACC.

Use of AI Tools

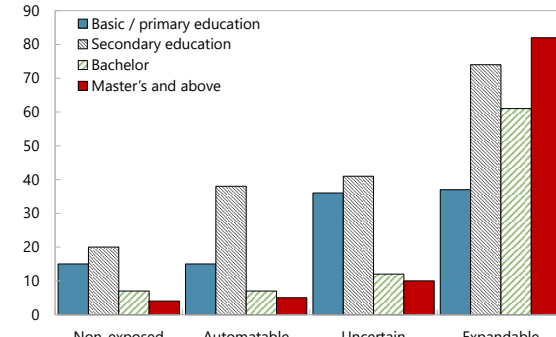
(Percent, share of firms using AI tools)



Sources: EIB 2025 Investment Survey and IMF Staff Calculations.

Number of Workers by AI Exposure Category and Level of Diploma

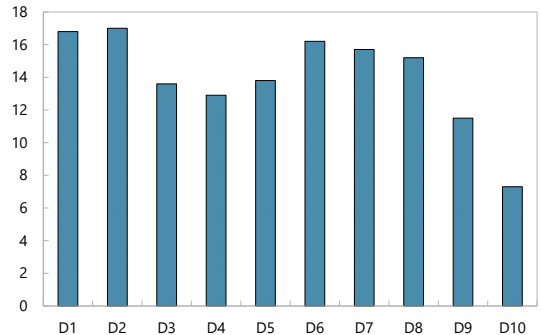
(Thousand, 2025)



Source: STATEC.

Share of AI Automatable Workers by Wage Decile

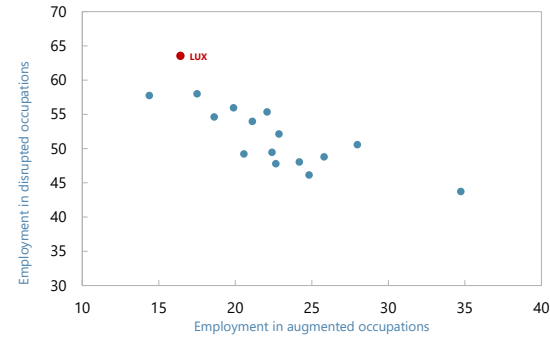
(Percent, 2025)



Source: STATEC.

Distribution of Employment in Financial Services

(Percent of employment in financial services)



Sources: LinkedIn Data Partnership Data and IMF staff calculations.

Annex VII. Data Issues Annex

Annex VII. Table 1. Luxembourg: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	A	B	B	C	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	B	C	B		
Granularity 3/	B		B	B	B		
			A		A		
Consistency			A	B		C	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. Luxembourg publishes timely economic statistics and most of the underlying metadata. However, National accounts and balance of payments data are subject to large revisions, and recently inter sectoral inconsistencies have widened and diverged constraining the accuracy of the policy advice. Fiscal revenue are available but more granularity is needed to disentangle one-off, cyclical and structural developments. As identified by the FSAP, areas of improvement for monetary and financial statistics include identification of SPEs in the corporate micro data to improve vulnerability assessments.</p>							
<p>Changes since the last Article IV consultation. Balance of payments and national accounts data have been revised significantly starting 2020. More efforts have been taken to collect data and reducing data gaps on OFIs, in line with the 2024 FSAP recommendation+B8. In particular, the BCL has collected data on the interconnectedness between investment funds and OFIs, in particular granular data on direct borrowing and lending activities, as well as investment exposures between counterparties.</p>							
<p>Corrective actions and capacity development priorities. Stronger interaction between Statec and the Central Bank could help reduce the gap between National Accounts and BoP data. Fiscal statistics could be improved by moving fully to accrual accounting to better assess the fiscal stance (cyclically adjusted balance). Monetary and financial statistics could be improved by including identification of OFIs in the corporate micro data to improve vulnerability assessments.</p>							
<p>Use of data and/or estimates different from official statistics in the Article IV consultation. In the absence of CRE price index, staff have used private sector estimates (Cushman and Wakefield).</p>							
Other data gaps.							

Annex VII. Table 2. Luxembourg: Data Standards Initiative

Luxembourg adheres to the Special Data Dissemination Standard (SDDS) Plus since November 2019 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex VII. Table 3. Luxembourg: Table of Common Indicators Requires for Surveillance
(As of May 27, 2026)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Expected Frequency ^{7,8}	Announced Frequency ⁹	Expected Timeliness ^{7,8}	Announced Timeliness ⁹
Exchange Rates	2026-04-30	2026-04-30	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2026-03	2026-04	M	M	M	M	1W	15D
Reserve/Base Money	2026-03	2026-04	M	M	M	M	2W	1M
Broad Money	2026-03	2026-04	M	M	M	M	1M	NLT 1 M
Central Bank Balance Sheet	2026-03	2026-04	M	M	M	M	2W	1M
Consolidated Balance Sheet of the Banking System	2026-03	2026-04	M	M	M	M	1M	NLT 1 M
Total assets of other depository corporations ²	2026-03	2026-04	Q	Q	M	M	1M	NLT 1M
Total credit from other depository corporations ²	2026-03	2026-04	Q	Q	M	M	1M	NLT 1M
Interest Rates ³	2026-04-30	2026-04-30	D	D	D	...	...	...
Consumer Price Index	2026-03	2026-04	M	M	M	M	1M	10D
Revenue, Expenditure, Balance and Composition of Financing ⁴ -General Government ⁵	2025-12	2026-04	Q	Q	A	...	2Q	...
Revenue, Expenditure, Balance and Composition of Financing ⁴ -Central Government	2026-03	2026-04	Q	Q	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	2025-12	2026-04	Q	Q	Q	Q	1Q	1Q
Total stock of General Government Debt ⁶	2025-12	2026-04	Q	Q	Q	Q	4M	4M
External Current Account Balance	2025-12	2026-04	Q	Q	Q	Q	1Q	NLT 82D
Exports and Imports of Goods and Services	2026-03	2026-04	Q	Q	M	M	8W	56D
GDP/GNP	2025-12	2026-04	Q	Q	Q	Q	1Q	85D
Gross External Debt	2025-12	2026-04	Q	Q	Q	Q	1Q	1Q
International Investment Position	2025-12	2026-04	Q	Q	Q	Q	1Q	1Q

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic non-bank financing.

⁵ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

⁶ Including currency and maturity composition.

⁷ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁸ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

⁹ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex VIII. Implementation of FSAP Recommendations

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations				
	Recommendations	Authorities	Priority	Progress/Observations
Systemic Risk Analysis				
1.	Improve bank liquidity stress tests by using cash-flow data for key currencies; incorporating liquidity-solvency interactions; and integrating depository fund manager group links.	CSSF/BCL	ST	<p>Stress Testing with Liquidity Solvency Interactions has been implemented by Macroprudential Division since October 2024.</p> <p>Stress Testing with integrated Group Manager Depository and Fund links has been implemented by Macroprudential Division since September 2024.</p> <p>The CSSF is currently integrating a FX liquidity stress test into the existing FX tool and developing a new stress test tool with the possibility to run it in significant currencies.</p>
2.	Identify Special Purpose Entities in the corporate micro data to improve vulnerability assessments.	STATEC	ST	Not implemented.
3.	Analyze investment funds' interlinkages with OFIs and with other funds, to quantify redemption patterns and potential amplification mechanisms.	CSSF/BCL	MT	<p>The BCL has further enhanced the risk-based monitoring of the interconnections between investment funds and other financial intermediaries (OFIs). Since 2017, the BCL is represented in the Non-Bank Monitoring Expert Group (NMEG) of the Financial Stability Board (FSB) and participates actively contributing to the FSB's annual global monitoring exercise, notably by sharing data, compiling vulnerability metrics, and improving its monitoring of systemic risk of non-banks operating in Luxembourg. The 2024 exercise included reduction of data gaps, including (i) non-bank fintech lending data collected on a best-efforts basis in light of the G20 Data Gaps Initiative and (ii) the distribution of the vulnerability metrics at jurisdiction level, including additional details for Economic Function (EF2) and Economic Function (EF3) entities in the narrow NBF1 measure. Interconnectedness is assessed through direct borrowing and lending activities, as well as investment exposures between counterparties. This approach helps identifying the balance sheet assets and liabilities that are shared among investment funds and OFIs, which can arise from credit provision or investment exposures. Notably, this measure of interconnectedness is categorized by OFI entity type, including money market funds, hedge funds, other investment</p>

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations (continued)				
	Recommendations	Authorities	Priority	Progress/Observations
				<p>funds (OIFs), financial companies, broker dealers, and structured financial vehicles. Alongside OIFs, it also accounts for interconnectedness between nonfinancial corporations (NFCs), government and households. This comprehensive perspective provides a clearer understanding of the relationships between investment funds, OIFs, and the broader economy.</p> <p>With regard to vulnerability metrics in the FSB annual monitoring exercise, the BCL reports indicators on credit intermediation, maturity transformation and leverage, as well as various disaggregated balance sheet items for several types of investment funds. Such items include total financial assets, credit assets, long-term assets with maturity over 12 months, liquid assets, long-term liabilities, short-term liabilities, net asset value and shareholder equity.</p> <p>By identifying also overlapping portfolios, shared holdings, and common exposures, the analysis aims to uncover vulnerabilities where excessive concentration could amplify liquidity systemic risks, particularly during periods of market stress.</p> <p>In addition to the FSB work, and using financial account data, the BCL continued to closely monitor interlinkages between investment funds and OIFs as outlined in the technical note of the Luxembourg FSAP on stress testing and systemic risk analysis published in June 2024. In this context, the BCL continues examining the interconnections within Luxembourg's financial sector, with a particular emphasis on investment funds, captives and banks. The analysis uses quarterly financial accounts data to offer a detailed breakdown of the assets and liabilities of domestic and international institutional sectors, categorized by financial instruments.</p> <p>Furthermore, the BCL's monitoring framework also utilizes network analysis tools to evaluate the structural relationships between investment funds, captives and banks, based on their respective balance sheets. This approach provides insights into asset</p>

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations (continued)				
	Recommendations	Authorities	Priority	Progress/Observations
				and liability classes, as well as the types of counterparties involved. In addition to existing network analysis, the BCL has developed a framework for System-wide Stress Testing (SWST) for Luxembourg covering investment funds and banks. The framework allows us to identify vulnerabilities arising from the increasingly intricate and complex financial system of banks and investment funds in Luxembourg.
4.	Enhance supervisory reporting, especially on investments and derivatives.	CAA	ST	The CAA regularly does thematic reviews to enhance the reporting data quality in the context of Solvency II reporting.
5.	Further monitor liquidity mismatches in newly emerging investment strategies of large AIF funds, including semi-liquid structures, liability driven investments, and those promoting “retailization”.	CSSF	MT	During the authorization process, the CSSF examines the liquidity profile and potential liquidity mismatches of authorized funds during the authorization process. In this context, a dedicated authorization questionnaire has been set up recently for ELTIF in the context of the ELTIF2 regulation which will also allow the CSSF to collect data at the authorization step. The CSSF continues to enhance the ongoing risk-based data-driven supervision through the UCI Risk Dashboard and the Outliers Analysis by adding a focus on specific fund cohorts. Specifically, it involves further integration of the investor information to monitor retailization trends, with a focus on cohorts of newly emerging investment strategies such as loan funds. In addition, the category of semi-liquid funds is subject to specific supervision for dealing with their specific liquidity risk profile of these funds.
Macprudential Policy				
6.	Enhance accountability and transparency to the general public, by publishing the factors underpinning macroprudential policy decisions, including where no action is taken.	CdRS	I	The CdRS is committed to maintaining a high level of transparency and accountability. In addition to the publication of its annual report, the CdRS has recently started publishing a semi-annual report of its current activities in order to enhance accountability and transparency to the general public.

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations (continued)				
	Recommendations	Authorities	Priority	Progress/Observations
7.	Uphold the primacy of the financial stability objective of the CdRS by reducing the MoF's role in macroprudential decision-taking.	MoF/CdRS	ST	The CdRS has assessed its structure as appropriate.
8.	Reassess whether the legal framework for borrower-based limits preserves the ability of the CdRS to act in a risk-sensitive manner.	CdRS/MoF	MT	The CSSF analyzed in cooperation with the Ministry of Finance whether the corridors in the Law on the Financial Sector (LSF) are presenting a potential constraint regarding the ability of the national authorities to act. Based on this analysis, it was concluded by the CdRS that the current corridors do not constrain appropriate action by the national authorities.
9.	Activate income-based macroprudential measures—such as stressed debt-service-to-income limit—early in the recovery cycle and consider gradually reducing the maximum-LTV ratio from 100 percent.	CdRS/CSSF	ST	The current CSSF policy stance is that the BBMs in place are appropriate. In addition, the CSSF assesses that bank lending practices, including the interest rate stress of 2% on variable and revisable rate mortgages, as prudent to mitigate risks to household indebtedness. The CdRS remains vigilant to the developments in the RRE market in Luxembourg. Regarding the maximum limit applied to FTBs and borrowers purchasing their primary residence, the CSSF assesses this maximum limit as being in line with cross-country practices. This flexibility in the application of the measure provides the right balance between some flexibility in lending practices and maintaining financial stability.
10.	Fortify banks' resilience on stock vulnerabilities, by raising capital buffer requirements, preferably through targeted capital-based measures on real estate exposures.	CdRS/CSSF	I	The national authorities continue to evaluate the need to act based on thorough analyses of the risks and vulnerabilities in Luxembourg. CSSF has assessed that RRE Stress on banks capital is lower than existing measures covering RRE risks but continues to monitor.
11.	Improve coordination with housing and other government policies with financial stability implications and establish a consultation mechanism with the CdRS	MoF/CdRS	I	The CdRS has broadened its cooperation and coordination. Topics with financial stability implications touching individual administrations, including specific initiatives in real estate policy, were regularly brought up in the CdRS forum. Members discussed these topics and exchanged views. A summary of these discussions has been reported in the newly established reports that provide additional detail on CdRS discussions since 2025.
12.	Future-proof CSSF and CAA independence by changes to the law. Where legal amendments are not feasible, issue subsidiary legislation to	MoF/CSSF/CAA	MT	The CSSF confirms that in practice, there is no impediment to operational independence. Currently, there are reflections on possible

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations (continued)				
	Recommendations	Authorities	Priority	Progress/Observations
	establish procedural safeguards within the constraints provided by the law.			amendments to the CSSF's founding law of 23 December 1998, also in the context of the upcoming implementation of EU Directive CRD VI, which contains provisions on independence criteria. It shall nonetheless be noted that the CSSF cannot be the instigator to potential legislative amendments, as this falls - among others - within the remit of the Ministry of Finance.
Financial Sector Oversight and Supervision				
13.	Promote EU-level depositary independence reforms; and meanwhile, include supervision of depositary-fund manager group links as risk factors in the risk-based approach.	CSSF	MT/ST	Promotion of depositary independence reforms at EU Level: -Ministry of Finance is primarily responsible for contributing to the EU regulatory initiatives. -To ensure convergence between EU NCAs, this recommendation should be addressed to EC & ESMA. Inclusion of a group links factor in the RBA: The RBA prioritization tool is in continuous development. The CSSF envisages to incorporate the group link in a future version.
14.	Finalize BCL/CSSF MoU on bank liquidity supervision and specify the criteria used for selecting the LSIs for which the BCL assesses LSREP.	BCL/CSSF	ST	MoU has been finalized.
15.	Continue discussions on initiating an on-site inspection framework of investment fund delegates outside Luxembourg, with a risk-based approach.	CSSF	MT	Progress has been made towards implementing the FSAP recommendation to initiate on-site inspections of delegates, particularly portfolio managers located outside Luxembourg. An operational framework for supervisory cooperation between the UK FCA and the CSSF is in the final stages of formalization. This operational framework will ensure effective cooperation and proper supervision of the risks involved with firms' management of Luxembourg UCITS funds' and AIFs' assets. As regards the SEC, two portfolio managers based in the US underwent an inspection in Q4 2024. However, further inspections will only be carried out once the conduct of inspections in third-country jurisdictions is harmonized at a European level. The CSSF considers such harmonization crucial in order to ensure a level playing field within the EU.
17.	Set up an internal audit function to evaluate and enhance CAA risk management, control, and governance.	CAA	MT	The CAA did not yet setup an internal audit function as the modalities of this function are still discussed at the level of our Executive Committee. CAA expects the function to be in place before end of 2026.

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations (continued)				
	Recommendations	Authorities	Priority	Progress/Observations
				Please also note that the requirement to have an internal audit function will be implemented in our national law before end of 2026.
18.	Use macroeconomic data in the authorities' analysis of cross-border payments for a more effective management of the ML/TF risks.	CSSF/FIU	MT	The CSSF continuously improves its understanding of ML/TF risks related to cross-border flows and has since the last visit taken additional measures in this regard. To be able to better detect and analyze payment patterns that stand out and that might warrant additional supervision, meetings have been organized with the Banque Centrale du Luxembourg ("BCL") to obtain the necessary cross-border payments data. The CSSF has equally put in place a software service that enables to turn the data obtained from the BCL into coherent, visually immersive exploitable data. CSSF's analysis has equally started to take into account macro-economic data to foster the understanding of ML/TF risks and to identify potential red flags. This information on cross-border flows is also reinforcing the micro-economic supervision performed by the CSSF at the entity level. As regards cooperation with foreign AML authorities, the AML colleges serve as the forum where potential red flags as to cross-border payment data may be discussed.
19.	Improve operational readiness of the FGDL for timely and reliable payouts; reassess staffing and asymmetry in time gaps for claims recovery.	CSSF/FGDL	MT	Improvements in the IT system's quality and reliability are still under discussion in order to better automate the payout process and ensure the 7-working-day payout period is met. Different scenarios are now envisaged. PDI department has been staffed with 2 additional agents in 2025 to ensure efficient day-to-day operations in addition to the workload related to reimbursement campaigns (even if in times of a bank crisis, the CSSF can draw upon its about 1'000 FTE workforce to provide the department with additional staff on demand, to accommodate labor shortage). Discussions are currently ongoing with the MoF, amongst other, regarding the future introduction of the CMDI in order to improve the insolvency framework and allow the FGDL to file its claims in a liquidation process within the same time period as the depositors (being currently 10 years) and to shorten this timeline.

Annex VIII. Table 1. Luxembourg: FSAP 2024—Main Recommendations (concluded)				
	Recommendations	Authorities	Priority	Progress/Observations
				Dedicated working groups are in place.
Financial Safety Net and Crisis Management				
20.	Continue the work on the operationalization of the resolution tools, expanding its national resolution handbook and by participating in simulation exercises.	CSSF	MT	<p>The CSSF has reviewed the Memorandum of Understanding (MoU) between the CSSF and the FDIC. An update, with minor changes, was proposed in September 2024 to the FDIC. In February, May and early November 2025, the CSSF communicated its availability to the FDIC to discuss the proposed minor changes if necessary. On 3 November 2025, the FDIC replied that they would contact the CSSF if necessary.</p> <p>The CSSF has reviewed the existing network of cooperation agreements on recovery and resolution planning with non-EU countries. The review of the cooperation agreements with non-EU-countries by the CSSF indicates that no other MOU should be updated because all the respective Luxembourg LSIs are earmarked for liquidation.</p>
21.	Undertake liquidity assistance simulation exercises to test banks' capabilities in mobilizing enough collateral.	BCL	ST	While recognizing the merit of testing the bank's ability to mobilize collateral in a timely manner, the BCL does not plan to perform such tests in the short run because of the signaling effect.

Annex IX. Transnational Aspects of Corruption

Luxembourg volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether it: (i) criminalizes and prosecutes the bribery of foreign public officials; and (ii) has an effective AML/CFT system that is designed to prevent foreign officials from concealing the proceeds of corruption.

Supply Side¹

1. In Luxembourg’s Phase 4 evaluation in 2024, the OECD WGB highlights that the country has taken significant legislative and institutional reforms to combat foreign bribery risks². Key advances include the adoption of an ambitious whistleblower protection law, a significant constitutional reform to enhance and modernize the status of judges and prosecutors, and a judgment-upon-agreement mechanism (a form of plea bargain) to facilitate resolution of complex financial cases. The authorities have also deployed more resources and strengthened their legislative framework for mutual legal assistance. In addition, the WGB notes several legislative amendments which extend the confiscation regime and facilitate its effective implementation and welcomes the introduction of a legal provision establishing the liability of legal persons for offences enabled by a lack of supervision or control.

2. Luxembourg should take additional steps to fight foreign bribery, in particular in addressing structural resource issues, insufficient detection and weak enforcement. The OECD WGB underscored that the authorities should find lasting and structural solutions to address resource constraints across criminal justice system and better identify foreign bribery risks faced by its companies. Additionally, weak enforcement against foreign bribery, including the low-level investigations and lack of prosecutions of legal persons, remains an issue. The dissuasiveness of fines for natural and legal persons could be improved, given the seriousness of foreign bribery and the application of mitigating circumstances especially as part of reclassification of offences. Other recommendations include: strengthening the detection of foreign bribery and related money laundering offences and making full use of available sources for detection and leveraging international cooperation instruments, particularly in multi-jurisdictional cases.

¹ Information relating to supply-side corruption in this annex draws on the WGB’s Phase 4 Report of Luxembourg (2024). The IMF staff and Luxembourg have provided additional views and information whose accuracy have not been verified by the WGB or the OECD Secretariat, and which do not prejudice the WGB’s monitoring of the implementation of the OECD Anti-Bribery Convention.

² Luxembourg faces moderate foreign bribery risks, with one of the 500 largest multinational enterprises (MNE) headquartered in Luxembourg and other businesses operating in high-risk and sensitive sectors. (See OECD-UNSD Multinational Enterprise Information Platform, and International Financial Statistics International Investment Position, Assets, Direct investment BPM6).

Facilitation Side³

3. Luxembourg’s continued reforms of the AML framework improve its capacity to mitigate the risk of laundering of proceeds of foreign corruption or “facilitation issues”. The authorities have a strong understanding of the risks, including corruption and bribery, being among main foreign proceeds of crimes. In line with Luxembourg’s risk profile, corruption is among main types of proceeds of crime referred to in suspicious transaction reports filed by reporting entities, disseminations of the financial intelligence unit, and ML investigations and prosecutions. The CSSF provides due attention to the mitigation of corruption risks by financial institutions and noted improvement in compliance among Specialized PFS, along with a significant decline of the number of shelf companies and bearer share depositaries. The registers of beneficial owners, fiducies and trusts, continue to support entity transparency. In December 2025, important amendments to the AML and criminal procedure frameworks i) expanded the spectrum of prosecutions to cover the laundering of any foreign offences, including corruption; ii) strengthened prosecutor’s investigative powers; iii) reduced procedural delays in complex financial cases; and iv) ended the near-automatic use of suspended sentences for first-time offenders.

4. Further improvements are nevertheless needed to ensure the risk of misuse of Luxembourg’s financial and corporate infrastructure to conceal the proceeds of foreign corruption is effectively managed. To maintain effective management of the risks arising from Luxembourg’s cross-border financial flows, the authorities should further enhance the exchange of risk-related information between domestic and foreign competent authorities, including in support of parallel financial investigations into foreign proceeds of corruption. The adequacy of judicial and investigative resources should be maintained, given the still-increasing volume and complexity of mutual legal assistance requests, including those linked to corruption cases. The very high risk of misuse for concealment of beneficial ownership at domestic fiducies and foreign trusts, as noted in the 2025 NRA, should be addressed through consistent supervisory controls and effective sanctions for non-compliance with beneficial ownership reporting obligations. High ML risk posed by persisting gaps in risk-based supervision, customer due diligence, and suspicious transactions reporting of accountants and professional directors and business centers,⁴ requires stronger supervision, including risk-based inspections and proportionate, dissuasive sanctions.

³ Information relating to facilitation-side of corruption in this annex draws on the FATF Mutual Evaluation reports and findings that relate to effectiveness of preventative measures applicable to the financial and non-financial sectors (including those relating to politically exposed persons and suspicious transaction reporting), transparency of legal persons and arrangements, enforcement against money laundering, and international co-operation and asset recovery.

⁴ Which are gatekeepers in the incorporation and domiciliation of legal persons, supervised by the Administration de l’Enregistrement, des Domaines et de la TVA.



LUXEMBOURG

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 3, 2026

Prepared By

IMF European Department

CONTENTS

FUND RELATIONS _____ 2

FUND RELATIONS

(As of April 30, 2026)

Membership Status: Joined December 27, 1945; Article VIII

General Resources Account:

	SDR Million	% Quota
Quota	1,321.80	100.00
Fund Holdings of Currency	981.82	74.28
Reserve Tranche Position	339.98	25.72

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	1,513.51	100.00
Holdings	1,522.96	100.62

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund (SDR Million); based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2026	2027	2028	2029	2030
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	0.01	0.01	0.01	0.01	0.01

Implementation of HIPC Initiative: Not Applicable

Safeguards Assessments: Not Applicable

Exchange Rate Arrangements: The exchange rate arrangement of the euro area is free floating. Luxembourg's participates in a currency union (EMU) with 20 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Luxembourg has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions maintained solely for security reasons, which have been notified to the Fund pursuant to the Executive Board Decision No. 144 (52/51).

Last Article IV Consultation: The last Article IV consultation was concluded on March 21, 2025. The associated Executive Board assessment is available at [Luxembourg: Staff Concluding Statement of the 2025 Article IV Mission](#) and the staff report (IMF Country Report No. 25/123) at [1LUXEA2025001.pdf](#). Luxembourg is on the standard 12-month consultation cycle.

Financial Sector Assessment Program (FSAP) Participation and ROSC: The Financial System Stability Assessment (FSSA) for the last mandatory FSA was discussed by the Board on June 7, 2024. The FSSA and accompanying Reports on the Observation of Standards and Codes (ROSCs) are available at <https://www.imf.org/en/Publications/CR/Issues/2024/06/07/Luxembourg-Financial-Sector-Assessment-Program-Financial-System-Stability-Assessment-549936>.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT): In September 2023, the Financial Action Task Force (FATF) recognized the quality of the existing AML/CFT framework of Luxembourg and placed it under regular monitoring, which corresponds to the best possible result following a mutual evaluation. The FATF report is available at <https://www.fatf-gafi.org/en/publications/Mutualevaluations/MER-Luxembourg-2023.html>.

Statement by the IMF Staff Representative
June 22, 2026

This staff statement provides an update on information since the Staff Report was issued. This information does not change the thrust of the staff appraisal.

1. **On June 8, the Luxembourgish authorities and social partners reached a tripartite agreement on a package of measures (“Resilience Package”) to mitigate the effects of the energy crisis.** This package comprises three main pillars: i) support for households through a partial coverage of fuel price increases (via a reduction in excise duties), subsidies for electricity, gas, and heating oil prices through end-2026, a temporary tax credit covering Jun-Dec 2026), and an increase in the tax credit for minimum wage earners (from Jan 2027 onward); ii) targeted state aid for firms and affected sectors, including agriculture; iii) increased subsidies for green transition. The package is expected to be voted by Parliament by end-June.

2. **With the fiscal cost of the Resilience Package relatively contained, the thrust of staff’s fiscal policy advice remains broadly unchanged.** The total cost is estimated at around 180 million euros (0.2 percent of GDP) in 2026 and 250 million (0.25 percent) in 2027 with new tax credits for income and minimum wage accounting for the largest share. Consequently, the fiscal deficit is projected to increase from 1.9 percent of GDP to around 2.1 percent in 2026, implying a still broadly neutral fiscal stance. For 2027, the fiscal deficit would rise from 2 percent of GDP to around 2.3 percent. The package thus does not change staff advice on the need of a moderate fiscal adjustment over the medium term.

3. **The energy support measures could have been better targeted.** The temporary income tax credit for 2026 and its subsequent integration in the tax scale in 2027 are broadly in line with staff’s previous Article IV advice, though a regular adjustment of the income tax brackets for inflation would have been preferable. While most energy-related measures in the package are temporary, they are untargeted, regressive, and weaken price signals. Also, the impact of higher energy prices on households is already largely cushioned by automatic wage indexation and the electricity grid subsidy. Further, the minimum wage tax credit increase comes on top of the planned minimum wage increase starting in January 2027 and an automatic wage increase in June 2026.

**Statement by Jeroen Clicq, Executive Director for Luxembourg and
Tom Englaro, Senior Advisor to Executive Director
June 22, 2026**

On behalf of the Luxembourg authorities, we extend our gratitude to Ms. Shabunina and her team for their engagement and the well-drafted report. The authorities will carefully consider the policy recommendations and would like to offer the following observations:

Recent economic developments and macroeconomic outlook

As one of Europe's most open and interconnected economies — deeply integrated through its financial center, its cross-border workforce, and its role as an EU institutional hub — Luxembourg navigates an overlap of external shocks. The energy crisis resulting from Russia's war of aggression against Ukraine led to a drop in external demand. This demand contraction was subsequently exacerbated by the ongoing geopolitical frictions, the trade tensions, and the war in the Middle East, partly explaining the sluggish growth (0.3 percent on average) experienced over the past three years. The government's decisive action to protect households' purchasing power, along with sustained high levels of public investments, was key to safeguarding private consumption and staving off further prejudicial effects. Nevertheless, the uncertain external environment and tighter financial conditions have been weighing on the private sector's confidence, which is reflected in subdued investment, while inflation rose from 2.1 to 2.3 percent in 2025 and unemployment reached 6.0 percent for the first time since the pandemic.

Strengthening the resilience of the economy is at the forefront of the government's economic agenda. Following the war in the Middle East, affecting key maritime shipping routes and hampering oil production, the government made it a priority to prevent the rising energy prices from turning into a broader inflationary and economic shock. In accordance with Luxembourg's tried and tested model of social dialogue, the government, private sector representatives, and trade unions came to an agreement on June 8, 2026, on the so-called "resilience package". A mix of temporary heating oil, gas, and electricity subsidies, fuel price support through excise duty reductions, and two tax credits, one of which will raise the minimum wage by EUR 200 without impacting companies' bottom lines, will prevent the erosion of households' purchasing power while protecting companies from multiple consecutive automatic wage indexations within a short period of time. Along with the sound economic and fiscal fundamentals – with public debt levels of 26.5 percent of GDP in 2025 - as well as the government's ambition to address structural challenges, the package lays the foundation for a gradual economic recovery over the medium term.

Fiscal policy

We welcome that staff recognize that the landmark taxation reform implements a necessary alignment of the taxation system with the working and living arrangements of today's Luxembourgish society. The reform foresees the replacement of the three existing tax classes with a single tax class. In such an individualized system, taxation will no longer depend on the taxpayer's marital status, thereby enhancing the system's fairness. As staff rightly stress in Annex V, the reform would reduce the disincentives for secondary income earners to enter the labor force or increase their working hours, with the added benefit of narrowing the gender gap in employment. Consequently, the

new system is better aligned with today's reality in Luxembourg in which the dual-income household is the dominant model. Furthermore, the reform will eliminate the complexities linked to joint taxation and automatic jumps in the tax class in case of a change in the marital status. To limit sudden tax increases for households benefiting from joint taxation under the current system, a 25-year transition period is envisaged. Finally, the reform is part of the government's overarching objective to strengthen households' purchasing power, as many people would face a much lower tax burden. Albeit substantial, the authorities deem the fiscal cost of EUR 850-900 million to be justified, given that the reform introduces a much-needed societal paradigm shift. To partly offset the overall fiscal impact, the government abandoned its previously announced plans to adjust the tax brackets to past wage indexations.

Spending pressures are tackled head on. The government will maintain a high level of growth-enhancing investments – averaging 4.5 percent of GDP per year through 2029 – to support the green and digital transitions, address housing shortages, and honor its international defense spending commitments. To hit the defense spending target, the government is deploying innovative financing tools, such as the first sovereign retail defense bond in Europe since World War II and a new National Defence Fund, with an investment capacity of up to EUR 150 million in defense and dual-use technologies. Higher defense expenditure accounts for a relatively significant portion of the higher-than-expected deficit in 2025. The National Action Plan against Poverty will strengthen poverty reduction efforts, with several measures introduced alongside the tax reform to support vulnerable households.

Fiscal sustainability will remain the guiding principle of Luxembourg's fiscal policy. Pending revisions of the national fiscal framework, the Medium-term Objective (MTO) continues to serve as national fiscal rule. The forthcoming Public Investment Management Assessment (PIMA) is anticipated to enhance the efficiency of public investment and generate savings. In addition, the authorities expect revenues to regain momentum as growth strengthens, supported by higher household purchasing power from the tax reform and the EUR 450 million resilience package, and by the clearance of a healthy amount of tax arrears. Early indications of recovery are already visible in a year-on-year revenue increase of EUR 800 million by end-May.

The pension reform puts the pension system on a solid footing for the years to come. After a broad public consultation process, the government and social partners agreed in September 2025 on a gradual and socially balanced reform to strengthen the system's sustainability. Beyond a balanced increase in contributions across employers, workers, and the state, the reform includes incentives to extend working lives, alongside stricter early retirement conditions through a gradual eight-month extension of the required contribution period over five years. The authorities concur with staff that further action may be needed over time but consider that this reform constitutes a solid basis for said adjustments on a highly sensitive topic.

Financial Sector

The financial sector remains resilient and continues to perform strongly, underpinned by sound risk management practices. The banking sector is well capitalized and highly liquid, with solid capital ratios (25.2 percent) and robust asset quality as reflected in the low level of non-performing loans, currently at 1.4 percent. The investment fund sector also continues to perform strongly, supported by sustained growth in assets under management. Risks remain contained, with

moderate leverage and limited liquidity vulnerabilities across the sector. The availability of liquidity management tools, further reinforced by recent regulatory developments, also play an important role in supporting the sector's resilience and mitigating liquidity risks going forward. Stress tests reveal that both the number of banks facing capital shortfalls as well as the number of funds with severe liquidity shortages under an adverse scenario are very limited. While both sectors managed recent geo-economic shock episodes well, the authorities reinforced their tight supervisory framework notably through the development of advanced stress-testing tools. This includes a system-wide stress test aimed at capturing risks related to the interconnectedness between banks and investment funds. They also followed up on a recent FSAP recommendation with the launch of an innovative new stress test that incorporates liquidity-solvency interactions. In line with staff advice, a stress test for the insurance sector is being developed as well. These enhancements will solidify the authorities' oversight of the financial sector, including the liquidity and funding risks.

The set of macroprudential measures currently in place is fit for purpose. The authorities acknowledge the specific features of the Luxembourg housing market. However, they consider that staff's characterization of the Luxembourg housing market as featuring a "sizable and persistent share of vulnerable mortgages" relies on criteria that are not suited to the Luxembourg context and therefore does not provide a sufficiently robust assessment of underlying risks. Moreover, the analysis would gain from clearer identification and segmentation of vulnerable borrowers, particularly as to whether vulnerabilities are concentrated among lower or higher-income households. The fact that previous slumps in the real estate market did not affect the banking sector in a significant manner provides comfort in that regard. Moreover, the authorities' existing stress-testing framework, especially the interest rate stress test on residual income, already captures borrower risk in a more tailored way than BBMs.

Structural policies

Artificial intelligence is a centerpiece of the government's plans to boost productivity. The authorities thank staff for the annex on artificial intelligence (AI) and the labor market. Recognizing AI's significant upside potential for Luxembourg's economy, the government developed an AI strategy aimed at positioning the country as a leading digital innovation hub. Multiple actions are foreseen to upskill the workforce, such as tailored training programs for professionals, specialized academic offerings for experts, and initiatives like AI4All to foster a broad AI literacy for citizens. Complementary initiatives are intended to foster firm-level adoption of AI to support a broader diffusion across the economy. A notable example is Luxembourg AI Factory, designed to serve as a one-stop shop for companies' AI adoption by providing support from concept to final deployment. The government supports these efforts by providing financial aid through the Fit4AI initiative (EUR 10,000 - 200,000) and SME packages – AI (up to EUR 25,000) to cover the cost of external experts helping companies, in particular SMEs, harness the potential of AI.

Tackling bottlenecks in the housing market remains a key priority. The 2024 policy package to support construction firms during the downturn and facilitate access to housing, combining direct financial assistance with targeted fiscal incentives, successfully halted the rise in bankruptcies and reinvigorated activity. The EUR 480 million envelope set aside for the public acquisition of housing units and off-plan purchases (VEFA) has been fully committed and will result in more social and affordable housing. At the same time, the authorities are advancing structural reforms to increase effective supply, including a land mobilization tax to discourage land hoarding and efforts to ease

regulatory bottlenecks and accelerate building processes.

The ongoing energy crisis due to the war in the Middle East underscores the importance of the energy transition to enhance the economy's ability to withstand future energy shocks. The expansion of renewable energy sources continues steadfastly in Luxembourg while public support for energy-friendly renovation and sustainable construction is set to reach close to EUR 500 million from 2026 to 2029, with an additional EUR 450 million set aside for solar panels. The recently agreed "resilience package" foresees further temporary financial aid for households envisaging the installation of non-fossil fuel boilers or an energy retrofit in their homes. This is a good example of how a temporary measure can have a lasting impact.