

LUXEMBOURG

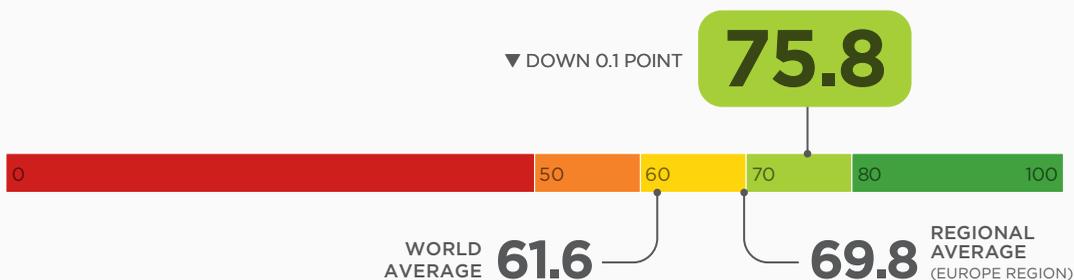


Luxembourg's economic freedom score is 75.8, making its economy the 19th freest in the 2020 *Index*. Its overall score has decreased by 0.1 point due to a decline in the **monetary freedom** score. Luxembourg is ranked 10th among 45 countries in the Europe region, and its overall score is well above the regional and world averages.

Luxembourg's economy has been in the mid-ranks of the mostly free category for more than two decades. GDP growth, driven primarily by exports of financial services, has fluctuated around an average level of about 3 percent annually for the past five years.

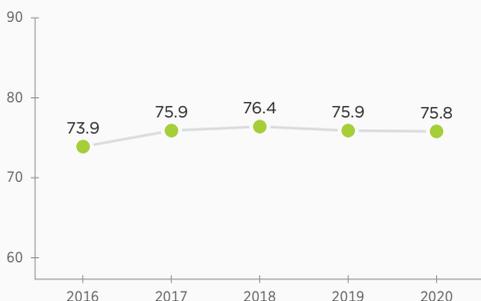
Luxembourg's unsustainably high rate of government spending has long blocked it from attaining the highest economic freedom rank. Prospects for improvement are dim, as the coalition government is expected to continue to incur budget deficits as it pursues higher public-infrastructure investment spending and faces increasing demands on the pension and health care funds from the country's aging population.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +3.3

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
0.6 million

GDP (PPP):
\$64.2 billion
3.0% growth in 2018
5-year compound
annual growth 3.0%
\$106,705 per capita

UNEMPLOYMENT:
5.5%

INFLATION (CPI):
2.0%

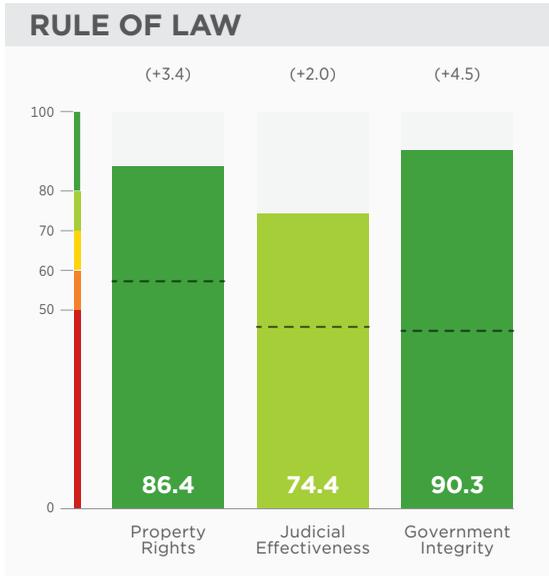
FDI INFLOW:
-\$5.6 billion

PUBLIC DEBT:
21.8% of GDP

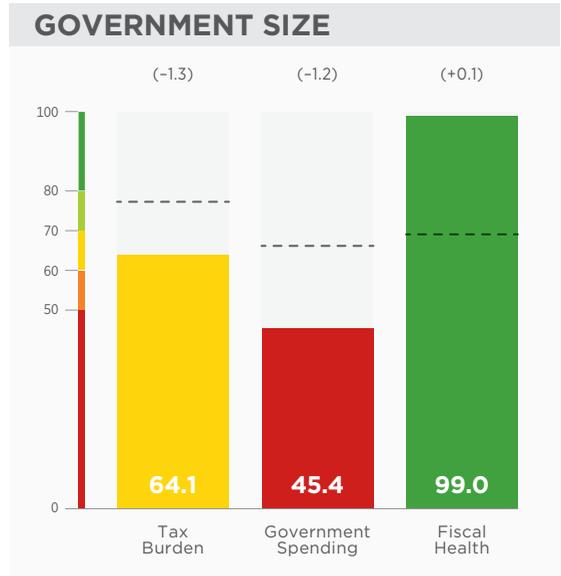
2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: A founding member of the European Union in 1957 and the eurozone in 1999, the small Grand Duchy of Luxembourg continues to promote European integration. Democratic Party Prime Minister Xavier Bettel's three-party left-leaning coalition barely held on to power in October 2018 elections. Luxembourg enjoys high levels of prosperity; the recession provoked by the economic crisis in 2009, for example, was its first in 60 years. Growth is strong, and unemployment is under control. During the 20th century, Luxembourg evolved into a mixed manufacturing and services economy with a strong financial services sector. With its low energy costs, reliable electricity grid, and stable governance, the country is attracting interest as a hub for the 21st century information economy.

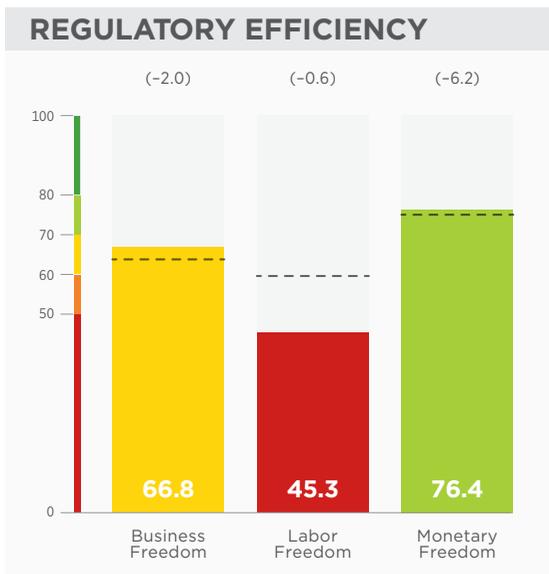
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Property rights are recognized and well protected. Contracts are secure. The judiciary is procedurally competent, fair, and reliable but also slow. Corruption is not widespread, and allegations of corruption are prosecuted.



The top individual income tax rate is 42 percent, and the top corporate tax rate has been reduced from 19 percent to 18 percent. The overall tax burden equals 38.7 percent of total domestic income. Government spending has amounted to 42.7 percent of the country's output (GDP) over the past three years, and budget surpluses have averaged 1.9 percent of GDP. Public debt is equivalent to 21.8 percent of GDP.



The freedom to start, operate, and close a business is generally not infringed upon by the government. Luxembourg has increased maternity leave, amended provisions for taking leave for personal reasons, introduced state co-financing of professional training, and amended pre-retirement rules. Monetary stability has been well maintained, but the agricultural sector is highly subsidized, and fuel subsidies per capita remain the highest in Europe.



The total value of exports and imports of goods and services equals 415.5 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. The efficient investment regime facilitates foreign investment without heavy bureaucratic interference. The modern financial system is competitive, and the well-capitalized banking sector offers a wide range of services.