

# LUXEMBOURG

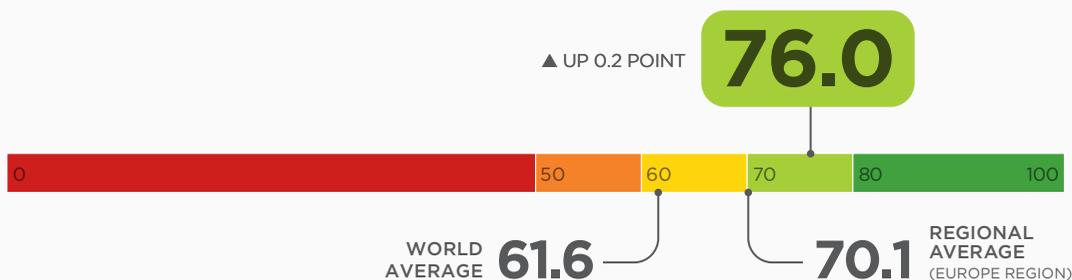


Luxembourg's economic freedom score is 76.0, making its economy the 18th freest in the 2021 *Index*. Its overall score has increased by 0.2 point, primarily because of an improvement in **judicial effectiveness**. Luxembourg is ranked 11th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Luxembourg's economy remains in the mostly free category where it has been for more than two decades. Greater economic freedom continues to be impeded by the unsustainably high rate of government spending. Unfortunately, spending in 2020 was on track to exceed spending in 2019, again putting off a reckoning with looming demands on the pension and health care funds from the country's aging population.

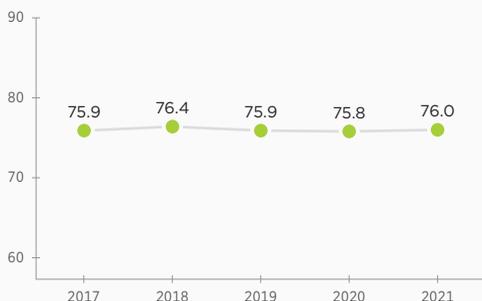
**IMPACT OF COVID-19:** As of December 1, 2020, 330 deaths had been attributed to the pandemic in Luxembourg, and the economy was forecast to contract by 5.8 percent for the year.

## ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): +3.5

## RECENT FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
0.6 million

**GDP (PPP):**  
\$68.8 billion  
2.3% growth in 2019  
5-year compound annual growth 3.2%  
\$121,293 per capita

**UNEMPLOYMENT:**  
5.4%

**INFLATION (CPI):**  
1.7%

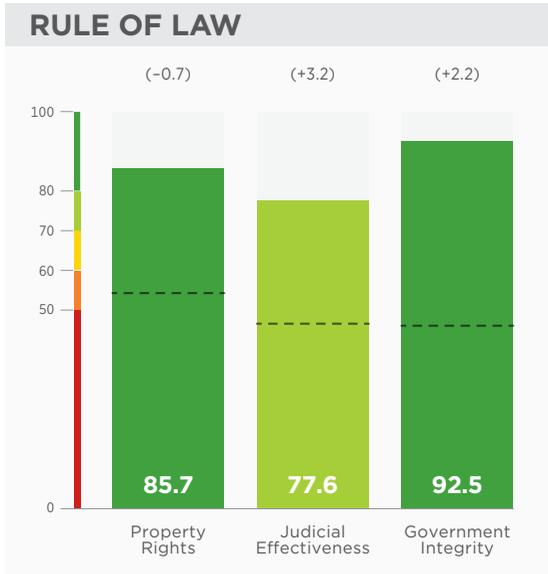
**FDI INFLOW:**  
-\$11,420.8 million

**PUBLIC DEBT:**  
22.0% of GDP

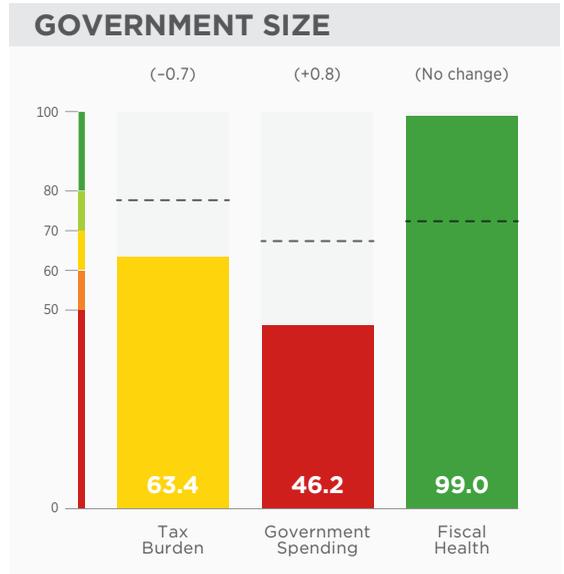
2019 data unless otherwise noted. Data compiled as of September 2020

**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 leads a three-party left-leaning coalition. Luxembourg enjoys high levels of prosperity; the recession provoked by the economic crisis in 2009, for example, was its first recession in 60 years. During the 20th century, Luxembourg evolved into a mixed manufacturing and services economy with a strong financial services sector that accounts for 25 percent of GDP. With its low energy costs, reliable electricity grid, stable governance, and a growing data-storage sector, the country is attracting interest as a hub for the 21st century information economy.

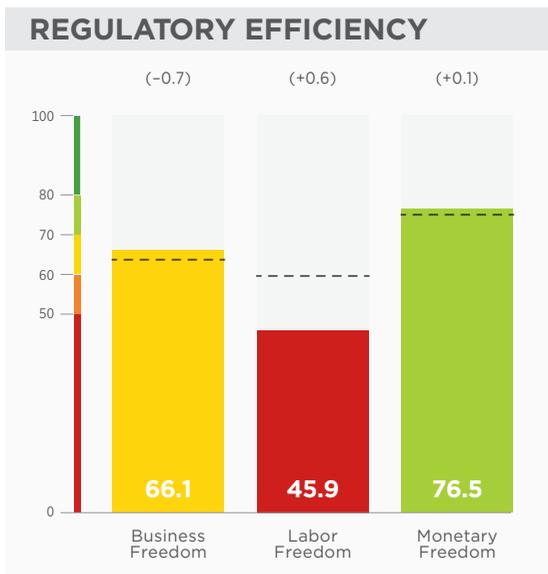
# 12 ECONOMIC FREEDOMS | LUXEMBOURG



The legal system protects and facilitates the acquisition and disposition of all property rights. A land registry cadaster records ownership of land and buildings. The open and transparent economy has no restrictions on foreign ownership. Contracts are secure. The judiciary is independent, albeit slow, and a well-functioning legal framework strongly supports the rule of law. Laws, regulations, and penalties are enforced impartially to combat corruption.



The top individual income tax rate is 42 percent, and the top corporate tax rate has been reduced to 17 percent. The overall tax burden equals 40.1 percent of total domestic income. Government spending has amounted to 42.4 percent of total output (GDP) over the past three years, and budget surpluses have averaged 2.2 percent of GDP. Public debt is equivalent to 22.0 percent of GDP.



The freedom to start, operate, and close a business is well protected, and business freedom has changed little over the past year. Luxembourg recently changed the amount of paid annual leave that some workers receive. Monetary stability has been well maintained, but subsidies included in the government budget for 2020 are equivalent to about 1.2 percent of GDP.



As a member of the EU, Luxembourg has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. Overall investment activity is sustained by the solid institutional foundations of an open-market system. The sophisticated financial sector is well capitalized and competitive.