

Luxembourg

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IN A NUTSHELL

- The economy grew by 6.9%, unemployment decreased to 5.3% and inflation reached 3.5%. The general government balance was a surplus of 0.9% GDP.
- House prices rose due to a supply and demand imbalance and low interest rates increasing borrowing capacity.
- Outstanding residential mortgages and new lending recorded a new all-time high in 2021.
- New LTV limits were introduced, alongside the Housing Pact 2.0 programme, to increase the supply of affordable and sustainable housing.

MACROECONOMIC OVERVIEW

The economy grew by 6.9%, mainly driven by the recovery of external and domestic demand, especially private consumption and investments. Unemployment decreased to 5.3% from 6.8% in 2020 mainly due to the government's short-time work scheme. According to the European Commission's Spring Forecast (from May 2022), the current conflict in Ukraine will hamper GDP growth, expected to reach 2.2%. In addition, there will be an indirect impact in terms of higher market volatility and lower consumer and business confidence.

The general government balance was a surplus of 0.9% GDP, revenues increased by 12.7% due to higher personal income tax and social contributions, public expenditures rose by 2.4%.

Inflation increased to 3.5%, due to higher energy prices and the introduction of a carbon tax. The European Commission forecasts inflation to increase in 2022 as a consequence of the war and commodity prices. However, over the medium term, the level of inflation is expected to be aligned with the inflation target of the European Central Bank (ECB), which stands at 2%.

HOUSING MARKETS

House prices rose by 13.9%, mainly due to the imbalance between supply and demand for housing and the low interest rate environment, which, for the second year in a row, continued to decrease, this year, to 1.32%. Per capita indebtedness continued to increase. Demand for housing has increased partly as a result of population growth in particular the arrival of new residents from abroad. In the Luxembourg canton alone, the average price for a house was almost double the price of an equivalent property in the north. The supply side, although anticipating the demand expansion, was not able to keep up with it, causing upwards pressure on houses prices.

After falling in 2020, the number of building permits issued in 2021 increased by over 19%. This has been helped by the Housing Pact 2.0, which came into force in January 2021 and aims to increase the supply of affordable and sustainable housing by mobilising existing land with potential for residential development

and improving the quality of new, socially mixed developments.

The number of transactions in 2021 is the same of 2020, 6,835, the highest amount ever reached.

MORTGAGE MARKETS

The mortgage market continued to grow, reaching EUR 42 bn by year end. Gross residential lending fell by 2.8% after several years of growth reaching a total volume of EUR 10,378 bn. Continuing the trend since 2018, average interest rates fell, to 1.32% by year end. Variable interest rates fell by 6 bps, while average fixed interest rates increased by 8 bps. The volume of variable interest rates lent during the year was EUR 17 mn less than in the previous year, fixed loan origination decreased by EUR 67 mn.

The macroprudential authority introduced new legally binding loan-to-value (LTV) limits, a 100% limit for first-time buyers acquiring their main home; a 90% limit for other buyers for their main home and a 80% limit for other mortgages (including buy-to-let).

MORTGAGE FUNDING

Mortgages in Luxembourg are principally funded through deposits.

GREEN FUNDING

The Ministry of the Environment launched in 2017 the PRIME House 2017 program, which provides grants for energy efficiency renovations to improve the long-term of residential buildings and incentivise of renewable energy sources. This scheme supports the renovation and adaptation of houses built in 2012 or earlier to new energy efficiency requirements. To receive the subsidy, beneficiaries (which can be people, companies or non-state public entities) must obtain a certificate from an energy consultant.

The subsidy is for single-family houses or units in multi-unit residential building. The government applies a reduced VAT rate of 3% instead of 17% to renovations of properties intended as a primary place of residence. This tax concession cannot exceed EUR 50,000 per home over 15 years.

| | LUXEM- BOURG 2020 | LUXEM- BOURG 2021 | EU 27 2021 |
|--|-------------------------|-------------------------|---------------|
| MACROECONOMIC VARIABLES | | | |
| Real GDP growth (%) (1) | -1.8 | 6.9 | 5.4 |
| Unemployment Rate (LSF), annual average (%) (1) | 6.8 | 5.3 | 7.0 |
| HICP inflation (%) (1) | 0.0 | 3.5 | 3.0 |
| HOUSING MARKET | | | |
| Owner occupation rate (%) (1) | 68.4 | 68,4 | 70.0 |
| Gross Fixed Investment in Housing (annual change)(1) | -7.0 | 3.0 | 6.6 |
| Building Permits (2015=100) (2) | 112.2 | 133.9 | 134.0 |
| House Price Index – country (2015=100) (2) | 151.1 | 172.1 | 145.2* |
| House Price Index – capital (2015=100) (2) | n/a | n/a | 146.1* |
| Nominal house price growth (%) (2) | 14.5 | 13.9 | 10.3* |
| MORTGAGE MARKET | | | |
| Outstanding Residential Loans (mn EUR) (2) | 38,958 | 42,433 | 6,508,621 |
| Outstanding Residential Loans per capita over 18 (EUR) (2) | 76,906 | 82,597 | 17,782 |
| Outstanding Residential Loans to disposable income ratio (%) (2) | 151.6 | 163.2 | 62.8* |
| Gross residential lending, annual growth (%) (2) | 13.6 | -2.9 | 12.2 |
| Typical mortgage rate, annual average (%) (2) | 1.3 | 1.3 | 2.0 |

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

LUXEMBOURG FACT TABLE

Which entities can issue mortgage loans in your country? Banks and bank' branches from German Bausparkassen and the "Caisse Nationale d'Assurance Pension", which lends only to private sector employees who contribute to the pension fund.

What is the market share of new mortgage issuances between these entities? 100%

Which entities hold what proportion of outstanding mortgage loans in your country? Six domestically-oriented banks, hold 90% of mortgage loans.

What is the typical LTV ratio on residential mortgage loans in your country? The usual maximal LTV ratio amounts to 80%.

How is the distinction made between loans for residential and non-residential purposes in your country? Not available

What is/are the most common mortgage product(s) in your country? The most common mortgage contract is at a fixed rate. (62% of loans issued in 2021 = fixed, and so 38% variable)

What is the typical/ average maturity for a mortgage in your country? The standard maturity for mortgage loans is 25 to 30 years, while some banks grant credits for up to 35 years.

What is/are the most common ways to fund mortgage lending in your country? Mostly deposits

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)? Roundtrip transaction cost (registration tax, notary fees, real estate agent's fee, transcript tax) are between 12%-16.5%..

What is the level (if any) of government subsidies for house purchases in your country? In the case of affordable housing for sale, public support- 50% of study and infrastructure costs- is available under the condition that at least 60% of the homebuyers are people who qualify to obtain a construction subsidy from the state based on the household income.