

Luxembourg

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IN A NUTSHELL

- The economy grew by 1.5%, unemployment decreased to 4.6% and inflation increased to 8.2%. The general government balance was a surplus of 0.2% GDP.
- House prices rose slower due to an increase in interest rates. New building permits dropped to the lowest amount since 2016.
- Outstanding residential mortgages and new lending stopped the growing trend of previous years.

MACROECONOMIC OVERVIEW

The economy slowed down to 1.5% GDP-growth y-o-y after 6.9% in 2022 mainly driven by a decrease in private consumption, exports and investment, in particular in the construction sector. Also, activity in the financial sector weakened due to the volatility and decline in market valuation of financial assets. Unemployment decreased to 4.6% year-end 2022 from 5.3% in 2021 mainly due to a still high job vacancy rate and improvements in the employment prospects in some sectors such as construction. According to the European Commission's Spring Forecast (from May 2023), private consumption is projected to rebound, due to an excess of savings and further government support. Domestic demand is still underpinned by government consumption and higher employee compensation. The investment rate is still expected to remain low, as rising interest rates pressure borrowing capacity and mortgage demand. Therefore, the European Commission's Spring Forecast is expecting a GDP growth of 1.6% in 2023.

The general government balance was a surplus of 0.2% GDP, driven by high revenue growth from a strong labour market and high inflation-related tax income. In 2023 the government surplus is expected to turn negative to -1.7%, due to moderate GDP growth and government support measurements.

Inflation increased to 8.2%, due to higher energy and food prices. The European Commission forecasts inflation to stabilize in 2023 at 3.2% because of lower energy prices due to government support.

HOUSING MARKETS

House prices rose by 9.6%, which is a decrease of 4.3% compared to 2021, driven by an increase in average annual interest rates to 2.1% in 2022. Per capita indebtedness decreased after steadily increasing for five years. Demand for housing remained high as a result of population growth in particular immigration.

After increasing in 2021, the number of building permits issued in 2022 decreased by over 23%, while the number of residents increased by nearly 23%. The slow-down in building permits was due to economic and political factors, such as high inflation and the rise in interest rates. The total number of transactions in 2022 was only 5,872 (6,836 in 2022), the lowest amount since 2016.

MORTGAGE MARKETS

The mortgage market still continued to grow - to EUR 44.6 bn by year end - but at a slower pace. Gross residential lending fell by -17% after several years of growth only reaching a total volume of EUR 9.337 bn in 2022 (11.243 in 2021). Breaking the trend of falling interest rates since 2018, average interest rates increased, to 2.12% by year end. The share of gross residential lending with a variable interest rate (fixed for up to 1 year) increased by 32% to 46.2% of newly issued loans.

MORTGAGE FUNDING

Mortgages in Luxembourg are principally funded through deposits.

GREEN FUNDING

Next to the PRIME House 2017 program launched in 2017, which provides grants for energy efficiency renovations to improve the long-term of residential buildings and incentivize renewable energy sources, the Ministry of the Environment introduced the Klimabonus RGD 2022. The Klimabonus RGD 2022 aims to make homes more energy efficient, facilitate the choice of zero-emission mobility solutions and enable citizens to manage the environment and forestry resources responsibly. This change will be accompanied by measures to support low-income households in particular.

	LUXEM-BOURG 2021	LUXEM-BOURG 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.1	1.5	3.5
Unemployment Rate (LSF), annual average (%) (1)	5.3	4.6	6.2
HICP inflation (%) (1)	3.5	8.2	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	71.1	72.4	69.1
Gross Fixed Investment in Housing (annual change)(1)	3.0	-6.9	1.5
Building Permits (2015=100) (2)	133.9	103.3	125.8
House Price Index - country (2015=100) (2)	172.2	188.6	164.6*
House Price Index - capital (2015=100) (2)	n/a	n/a	163.8*
Nominal house price growth (%) (2)	13.9	9.6	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	42,464	44,596	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	82,597	85,310	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	163.2	152.2	71.5
Gross residential lending, annual growth (%) (2)	5.2	-17.0	-6.5
Typical mortgage rate, annual average (%) (2)	1.3	2.1	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hyostat 2023, 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.