

Luxembourg

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IN A NUTSHELL

- GDP fell by 1.1%, unemployment increased by 0.6% and inflation decreased to 2.9%.
- The average house price fell 14.4% continuing the trend for the fifth consecutive quarter.
- Mortgage transactions increased by 25.4% by number and 20.7% by value.
- Variable rates reached 4.71% and fixed rates 4.10%, increasing substantially in September.

MACROECONOMIC OVERVIEW

Since the beginning of 2023, the economy has stagnated partially due to the banking sector's poor volume performance, but non-financial services also appear to be weakening.

Prior to the pandemic, real GDP was expanding at an annual average rate of 2.4% in the five years to 2019. After a decline of 0.8% in 2020 growth returned to 5.1% in 2021 as the pandemic restrictions ended. Following the pandemic the pace of recovery was slowed by a less favourable international climate that included inflation, monetary policy and uncertainty about the financial effects of Russia's war in Ukraine, particularly for food and energy.

Energy price controls implemented in 2022 and 2023 have prevented inflation from exceeding the average of the Eurozone. Luxembourg has implemented multiple initiatives aimed at mitigating the adverse effects of energy price rises on both individuals and businesses, the entire financial burden of which came to 0.9% of GDP.

The employment market in Luxembourg lands harder than it is in Europe. Employment has slowed down significantly since the beginning of the year and was essentially flat in the third quarter after holding up rather well the previous year. In parallel, Luxembourg has seen a workforce shortage.

While consumer price inflation has outpaced wage growth in the Euro region in recent years, Luxembourg has seen a large increase in real compensation per employee since 2019.

HOUSING MARKETS

Residential real estate prices rose, adding to household debt levels and raising concerns about possible problems in the future. While household debt as a percentage of GDP is still moderate (69.2% in 2023, aggregate debt levels are high relative to income. A major contributing factor to the amount of household debt is the rapid increase in loans for residential real estate.

The substantial drop in housing market transactions across all categories is the cause of the price downturn. In comparison to the same period in 2022, just 749 apartments – new or existing – were sold in the final quarter of 2023, a 42% decrease.

In the fourth quarter of last year, real estate sales totalled about EUR 435 mn, a 48.8% decrease from the same period of the previous year.

Even though there was an increase in house sales activity in the fourth quarter of 2023 compared to the previous quarter (+25.4% in number and 20.7% in value), it was still 21.2% lower than in the same period in 2022. The sales were mostly of existing properties.

In the final quarter of 2023, there was a notable decline in the sales of building land (-64.2% with respect to 2022). Advertised rentals increased 3.9% y-o-y. The average rent in Luxembourg City, Strassen, and Bertrange was about 40% higher than the national average.

Exports should rise once more in 2024 due to stabilising factors including the Euro area's modest growth (+0.8%) and the projected decline in interest rates.

MORTGAGE MARKETS

In Q4 2023, the number of new mortgages granted decreased (-14% y-o-y). For the sixth straight quarter, origination of single-family home loans—the majority of new mortgages—was lower. This may be partially attributed to a fall in demand and sales prices (the quantity of new loans decreased by 37% y-o-y in Q4 2023). However, loans for residential real estate and improvements to already-owned residences increased in Q4 by +25% and +40%, respectively, q-o-q, to reach their previous year's level. Additionally, loans to real estate developers increased by +27% for the quarter and +24% for the year. After improving in the first half of 2023, lending to the non-residential sector has since declined.

The total amount of home mortgages granted in the year was just under EUR 4 bn in 2023; a 44% decrease from EUR 7.18 bn in the previous year and the lowest in over ten years.

In conclusion, there were -43% fewer transactions in 2022 and -52% less in 2021. The financial volume fell by 53% compared to 2021 and -48% compared to 2022. The severe deficiency in the transaction market, which decreased by -3,796 in just a single year, resulted in a financial volume impact of EUR 3.4 bn. This led to a substantial reduction in the commission pool for real estate agencies, which decreased by EUR -103 mn, endangering the continued existence of numerous agencies.

MORTGAGE FUNDING

Luxembourg's mortgage market is primarily funded by deposits from individuals and businesses.

GREEN FUNDING

Luxembourg was the first nation to enact laws permitting the issue of green covered bonds. Covered bonds for renewable energy have been added to the list of current covered bond classes by the Law of 22 June 2018, which modernised the Law of 5

April 1993 on the Luxembourg financial sector. Also, the first stock exchange to run a platform exclusively for green, social and sustainable assets was the Luxembourg Stock Exchange. There were 1,317 green bonds listed on the exchange as of April 2022, with more than 200 issuers having issued green bonds exchange.

	LUXEM- BOURG 2022	LUXEM- BOURG 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	1.4	-1.1	0.4
Unemployment Rate (LSF), annual average (%) (1)	4.6	5.2	6.1
HICP inflation (%) (1)	8.2	2.9	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	72.4	n/a	69.2
Gross Fixed Investment in Housing (annual change) (1)	-14.3	-9.4	-3.1
Building Permits (2015=100) (2)	103.3	n/a	94.0
House Price Index - country (2015=100) (2)	188.6	171.5	170.2*
House Price Index - capital (2015=100) (2)	n/a	n/a	165.1*
Nominal house price growth (%) (2)	9.6	-9.1	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	44,596	43,942	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	69,099	66,497	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	155.9	140.4	71.3
Gross residential lending, annual growth (%) (2)	-17.0	-43.2	-26.6
Typical mortgage rate, annual average (%) (2)	2.0	4.1	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, 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.