

# Luxembourg

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## IN A NUTSHELL

- The economy returned to growth, by 1%. Inflation fell to 1.6% but unemployment increased to 5.9%.
- House prices continued to fall, but stabilized in Q4.
- Although falling, mortgages per capita of EUR 65,203 are the highest in Europe.
- The government has introduced several tax measures to support the housing and mortgage markets.

## MACROECONOMIC OVERVIEW

The economy returned to growth, by 1% after a 1.1% contraction in 2023 but still significantly below the growth of recent years. The main drivers of this growth were public consumption and exports of financial services. Lower interest rates and fiscal support (including energy subsidies) supported household demand but investment, particularly in real estate and equipment, remained weak with low consumer confidence.

Inflation fell to 1.6%, one of the lowest rates in Europe, partly due to lower food and energy prices and a decrease in the level of wage indexation. The IMF forecasts that it will decline slightly in 2025 then remain at the current low level in the medium term.

Unemployment increased to 5.9% (4.9% at year end 2023) and is particularly high (20.4%) in under-24s. This is largely due to the downturn in the construction industry and lack of investment in the non-financial sector. However, there are also shortages of labour in skilled sectors.

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.

The fiscal situation remains strong with a 1% government surplus (0.8% deficit last year), and a government debt to GDP ratio of 26% (provisional figures from the IMF).

## HOUSING MARKETS

House prices continued to decline rapidly, by 5.2% after a 9.1% decline in 2023. This is a correction from the rapid increases to 2022 when house prices rose by 57% over a four year period. In Q4 there were signs that the correction may be over with house prices rising by 4% in the quarter and apartments by 1.8%. Despite the decline, in absolute terms prices remained high at EUR 7,802 / m<sup>2</sup>.

Similarly, transaction volumes which are still significantly below their long term average of between 6 – 7,000 started to increase to 4,845, an increase of 49% y-o-y.

The government has introduced fiscal measures to support the housing market including increased tax deductibility for notarial fees, a tax credit for investors in rental properties, a 90% tax exemption for income from qualifying social housing measures and a temporary cut in capital gains tax realized on a property's sale.

The government doubled the allocation of funds to affordable housing (Fonds Spécial du Logement) to EUR1.45bn and widened the eligibility for affordable public housing provided by SNHBM (Société Nationale des Habitations à Bon Marché) as part of its policy to be a larger participant in the rental market.

## MORTGAGE MARKETS

The mortgage market continued to shrink albeit at a slower pace. At year end there were EUR 43.8bn outstanding (down 0.3% on the year, after a decline of 1.5% the year before). Relative to GDP, the decline is more dramatic to 50.9% from 55.4% a year previously – a level not seen since 2016.

However, in per capita terms the mortgage market is still the largest in Europe with EUR 65,203 outstanding per person (EUR 66,487 at year end 2023), 31% more than the second highest country, the Netherlands.

[The rate basis of mortgages continued to be mixed, 39% have a rate that is floating (or fixed for less than a year), the average cost of which fell slightly over the year from 4.07% to 3.96%. TO BE CHECKED]

As with the housing market, the government has introduced or expanded fiscal measures to support mortgages, including higher levels of tax deductibility of mortgage interest payments, and a tax shield for money paid by employers for rent for employees under the age of 30.

## MORTGAGE FUNDING

Luxembourg's mortgage market is primarily funded by deposits from individuals and businesses. There are now no more mortgage covered bonds outstanding.

## 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 2023	LUXEM- BOURG 2024	EU 27 2024
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	-1.1	1.0	1.0
Unemployment Rate (LSF), annual average (%) (1)	4.9	5.9	5.9
HICP inflation (%) (1)	2.9	1.6	2.6
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	67.6	63.5	68.4
Gross Fixed Investment in Housing (annual change) (1)	-9.4	-17.5	-4.9
Building Permits (2015=100) (2)	n/a	n/a	136.9
House Price Index - country (2015=100) (2)	171.5	162.5	179.8
House Price Index - capital (2015=100) (2)	n/a	n/a	171.5
Nominal house price growth (%) (2)	-9.1	-5.2	4.9
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	43,942	43,820	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	66,497	65,203	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	140.4	134	71.3
Gross residential lending, annual growth (%) (2)	-43.2	n/a	3.9
Typical mortgage rate, annual average (%) (2)	4.1	3.96%	4.34

(1) Eurostat Data

(2) European Mortgage Federation – Hypostat 2024, Statistical Tables

\* Eurostat Reviewed

\*\* EU 2024 to be confirmed

## LUXEMBOURG FACT TABLE

<b>Which entities can issue mortgage loans in your country?</b>	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.
<b>What is the market share of new mortgage issuances between these entities?</b>	100%
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	Six domestically-oriented banks, hold 90% of mortgage loans.
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	The usual maximal LTV ratio amounts to 80%.
<b>How is the distinction made between loans for residential and non-residential purposes in your country?</b>	Not available
<b>What is/are the most common mortgage product(s) in your country?</b>	The most common mortgage contract is at a fixed rate. (62% of loans issued in 2021 = fixed, and so 38% variable)
<b>What is the typical/ average maturity for a mortgage in your country?</b>	The standard maturity for mortgage loans is 25 to 30 years, while some banks grant credits for up to 35 years.
<b>What is/are the most common ways to fund mortgage lending in your country?</b>	Mostly deposits
<b>What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?</b>	Roundtrip transaction cost (registration tax, notary fees, real estate agent's fee, transcript tax) are between 12%-16.5%.
<b>What is the level (if any) of government subsidies for house purchases in your country?</b>	Eligible households can receive a capital grant of €500 to €10,000 toward home purchase or construction, with higher amounts available for condominiums, row houses, or semi-detached homes, subject to income-based eligibility criteria.