

Grand Duchy of Luxembourg

Rating report

Rating rationale

Wealthy economy with solid fundamentals: Luxembourg benefits from its high wealth levels and competitive economy, supported by strong labour productivity and high value-added sectors such as financial services and information and communication technology. These factors, alongside a stable and effective policymaking framework, contribute to Luxembourg’s economic resilience and its robust medium-term growth outlook.

Sound public finances and ample fiscal buffers: Luxembourg’s public finances benefit from very low public debt and substantial fiscal space, providing comfortable buffers to face potential future shocks. The fiscal balance is forecast to remain in moderate deficits over coming years, reflecting recent permanent budgetary adjustments, growing military spending and ambitious public investment commitments, while the debt-to-GDP ratio is seen remaining broadly stable at one of the lowest levels in the euro area.

Strong external position: Euro area membership, consistent current account surpluses and a large external creditor position largely mitigate risks linked to Luxembourg’s small, open economy and volatile net international investment position.

Rating challenges: i) a small, open economy that is exposed to external developments, including volatility in international financial markets; ii) financial vulnerabilities linked to the evolution of the real estate sector and elevated private debt levels; and iii) long-term fiscal pressures linked to population ageing and a generous social welfare system.

Figure 1: Luxembourg’s sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency	Political risk	Qualitative	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	a	EUR	Luxembourg	0	AAA
Public finance risk	25%	aaa			0	
External economic risk	10%	aaa			0	
Financial stability risk	10%	aa			- 1/3	
ESG risk	Environmental factors	3%	[+1]	[-0]	0	
	Social factors	3%			0	
	Governance factors	14%	aaa		0	
Sovereign Quantitative Model*			aaa		0	
Additional considerations					0	

*Scope’s Sovereign Quantitative Model (SQM) signals an indicative credit rating of ‘aaa’ for Luxembourg which was approved by the rating committee. For details, please see Scope’s [Sovereign Rating Methodology](#).

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt/Outlook

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt/Outlook

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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Credit strengths and challenges

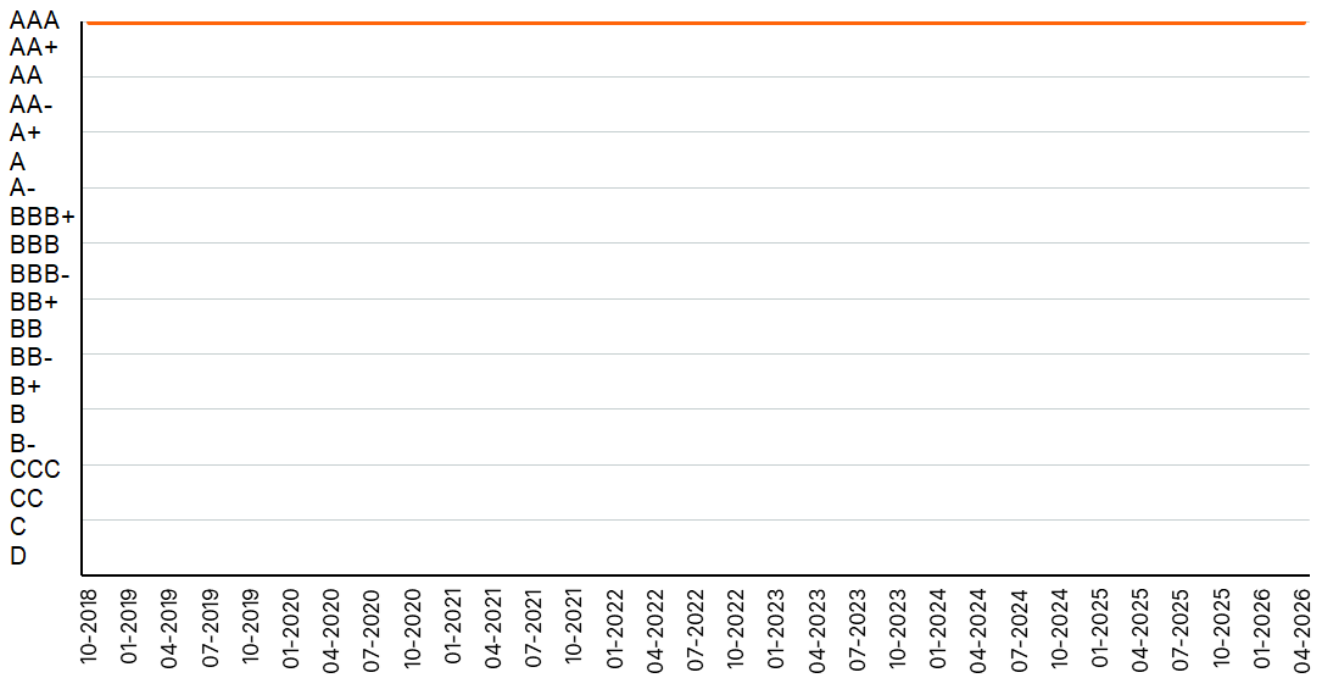
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Wealthy economy with solid fundamentals • Sound public finances and robust fiscal framework • Strong external position • Very strong institutional framework and political stability 	<ul style="list-style-type: none"> • Exposure to adverse external developments, as a small, open economy • Vulnerabilities stemming from high private debt and imbalances in the real estate sector • Long-term fiscal pressures from an ageing population

Outlook and rating triggers

The **Stable Outlook** reflects the view that risks for the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Growth outlook deteriorates substantially • Vulnerabilities in the financial system threaten macro-economic stability • Fiscal fundamentals weaken significantly

Figure 2: Rating history



Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

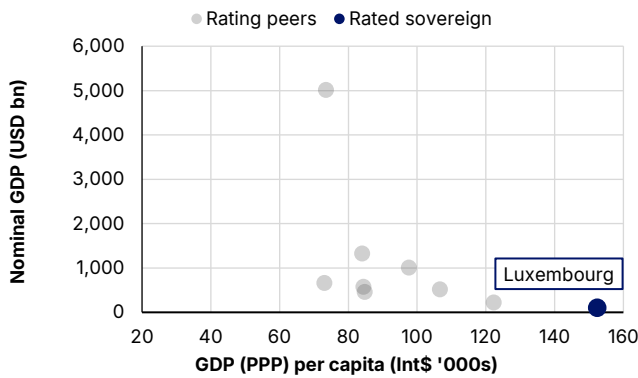
Rating analysis

Domestic economic risk

Overview of Scope's assessments of Luxembourg's Domestic Economic Risk

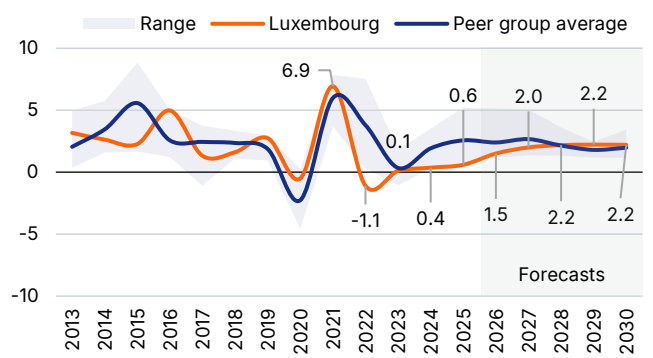
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential and outlook	Strong	1/3	High growth potential, supported by sound economic policies and high value-added sectors
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macroeconomic stability and sustainability	Weak	- 1/3	Small, open economy that is subject to volatility

Figure 3: Nominal GDP and GDP per capita (2025E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



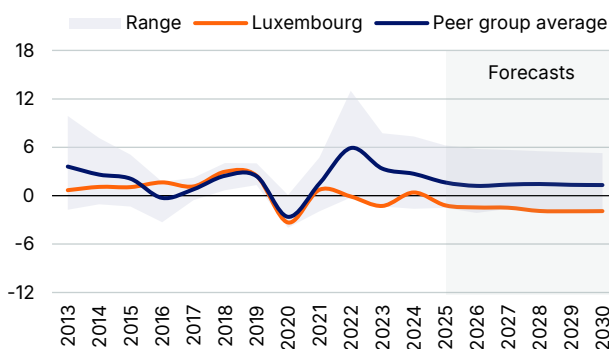
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Luxembourg's Public Finance Risk

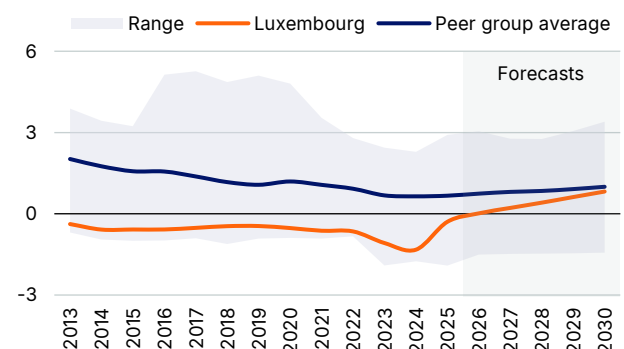
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Effective fiscal policy framework with track record of prudent and reactive budgetary management
	Long-term debt trajectory	Neutral	0	Very low debt levels; long-term fiscal pressures stemming from population ageing
	Debt profile and investor base	Neutral	0	Favourable debt profile with a low interest payment burden

Figure 5: Primary balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 6: Net interest payments, % of government revenue



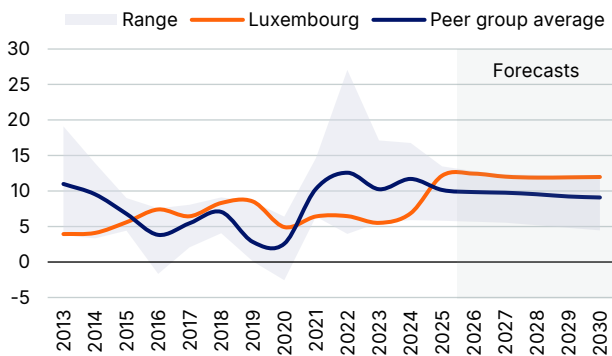
Source: IMF WEO forecasts, Scope Ratings

External economic risk

Overview of Scope's assessments of Luxembourg's External Economic Risk

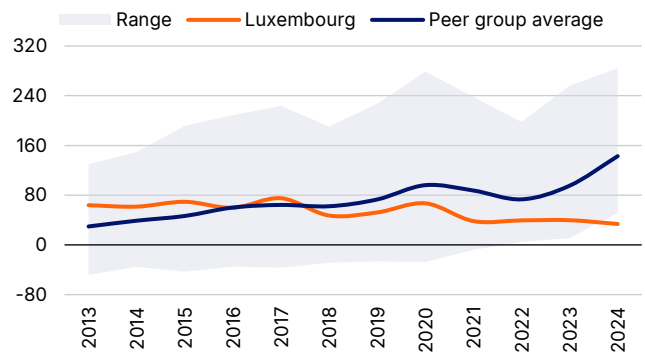
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Strong current account surpluses; reliance on financial service exports; sensitive to dividend policies vis-à-vis foreign investors
	External debt structure	Neutral	0	High external debt levels offset by external assets with a net international creditor position
	Resilience to short-term external shocks	Neutral	0	Euro-area membership mitigates risks from strong integration with global financial markets

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



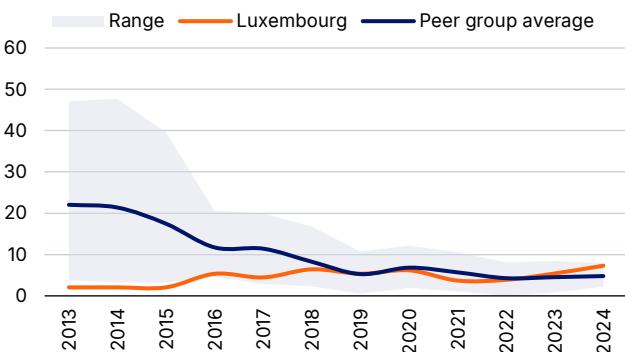
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Luxembourg's Financial Stability Risk

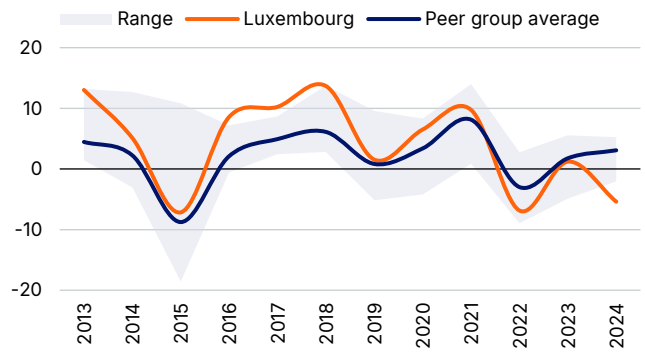
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Banking sector performance	Neutral	0	Efficient and resilient banking sector with large capital buffers and sound asset quality
	Financial sector oversight and governance	Neutral	0	Efficient, credible oversight frameworks under the Commission de Surveillance du Secteur Financier, the Central Bank of Luxembourg and the ECB
	Financial imbalances	Weak	-1/3	Imbalances in the housing sector due to demand and supply mismatches; high private debt levels, partly mitigated by high net household wealth

Figure 9: Non-performing loans net of provision, % of capital



Source: IMF, Scope Ratings

Figure 10: Private sector credit growth, %



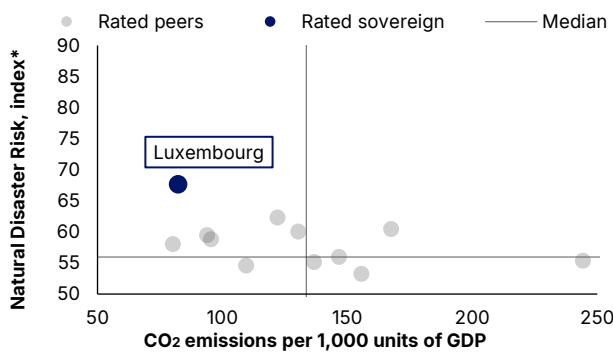
Source: World Bank (WB), Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope’s assessments of Luxembourg’s ESG Risk

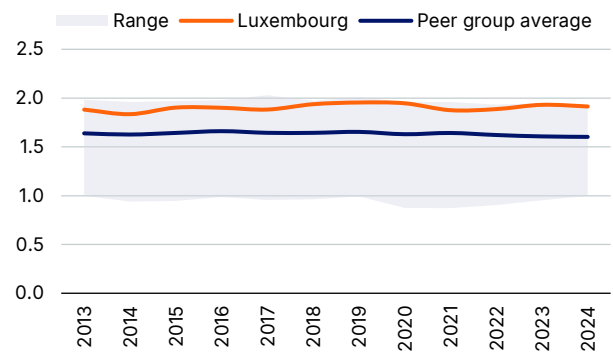
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental factors	Neutral	0	Ambitious climate goals with accelerating climate policy momentum; limited share of renewables; rapid population growth poses challenges
	Social factors	Neutral	0	Strong social outcomes, supported by generous social systems; increasing women participation rates
	Governance factors	Neutral	0	Stable political environment, high institutional effectiveness and track-record of broad policy continuity

Figure 11: Transition and natural disaster risks



Source: European Commission, Notre Dame Global Adaptation Initiative, Scope Ratings
 *Higher scores indicate lower vulnerability to physical risks. Median of SQM peers.

Figure 12: Governance, index score*



Source: WB, Scope Ratings
 *Mean of the WB estimates for Control of Corruption, Government Effectiveness, Regulatory Quality, and Rule of Law.

Reserve-currency adjustment

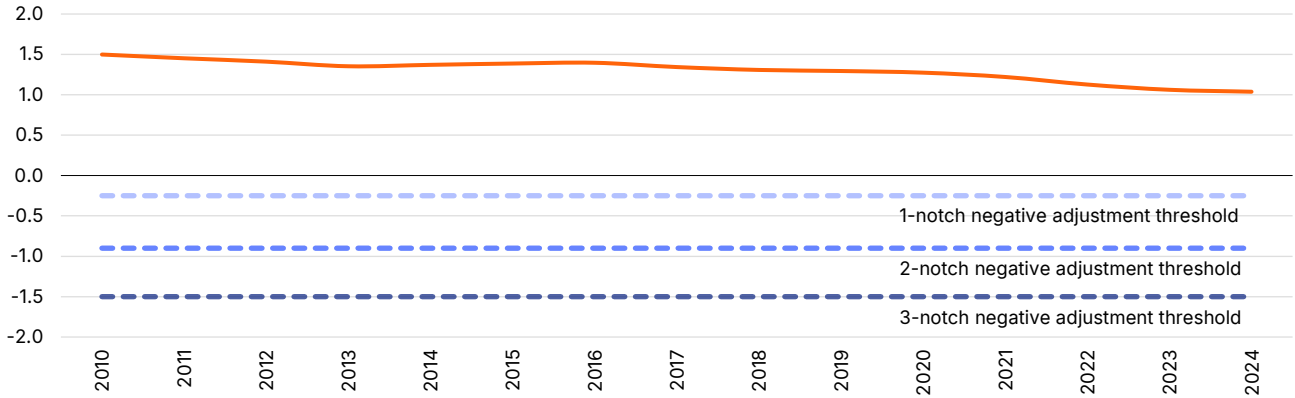
IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

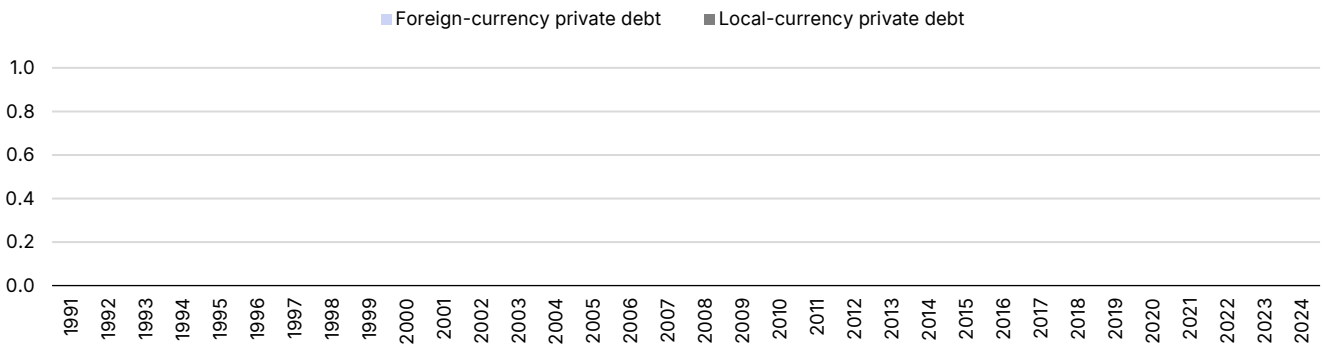
Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Luxembourg, three-year moving average



Source: WB, Scope Ratings

Sovereign default history and applicability of the default cap

Figure 14: Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).

Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

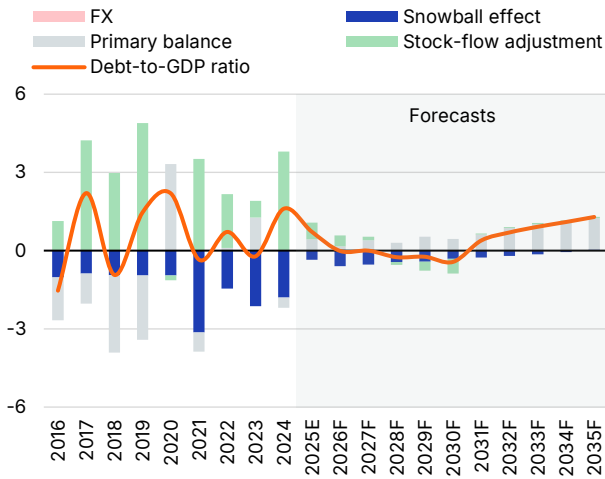
In view of the absence of a recent episode of default, the rating committee did not apply a cap to the indicative SQM rating.

Additional considerations

No adjustment was applied to the rating from additional considerations.

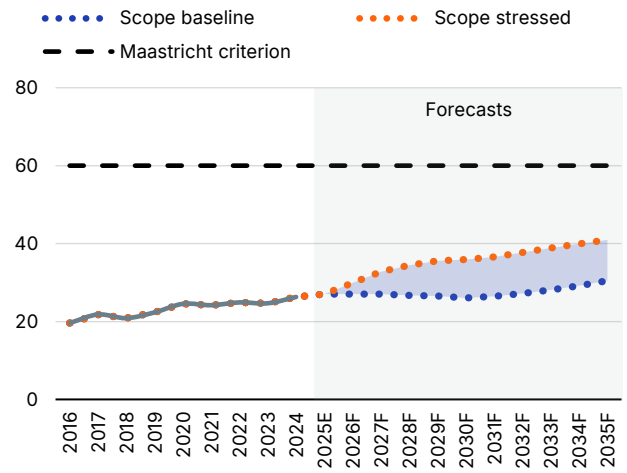
Appendix 1. Debt sustainability analysis

Figure 15: Contributions to change in debt ratio, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 16: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

Scope DSA Baseline, % of GDP (unless stated otherwise)

	2025E	2026F	2027F	2028F	2029F	2030F	avg. 2031F-2035F
Real GDP growth (%)	0.6	1.5	2.0	2.2	2.2	2.2	2.2
Deflator (%)	2.2	2.7	2.3	2.1	2.1	2.1	2.1
Primary Balance	-0.4	-0.2	-0.4	-0.3	-0.5	-0.4	-1.0
<i>Δ Cost of ageing</i>	0.0	0.0	0.0	0.0	0.0	0.1	0.6
Net Interest payments	0.4	0.5	0.6	0.7	0.7	0.8	1.0
General government debt (gross)	27.0	27.0	27.0	26.7	26.5	26.1	30.5*

* Figure refers to end-2035 forecast. Source: IMF WEO, Scope Ratings forecasts

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's SQM after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Denmark
Germany
Ireland
Netherlands
Norway
Sweden
Switzerland

*Selected publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

The shaded range in the charts above represents the distribution of sovereign-rating peers between the 10th and 90th percentiles of the full sample.

Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5-year USD CDS spread (bps)	n/a

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (21 out of 26 – with the governance indicator reflecting a composite of four indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources used ensures comparability across global sovereign peers and may therefore differ from national or other international statistical series; as a result, they may not immediately reflect the latest national updates.

Pillar	Core variable	Source	2020	2021	2022	2023	2024	2025E
Domestic Economic	GDP per capita (PPP) , Int\$ '000s	IMF	122.9	140.4	146.3	148.3	150.0	152.4
	Nominal GDP , USD bn	IMF	74	86	81	89	93	101
	Real growth , %	IMF	-0.5	6.9	-1.1	0.1	0.4	1.2
	CPI inflation , %	IMF	0.0	3.5	8.1	2.9	2.3	2.3
	Working-age population growth , %	UN	1.6	1.4	1.9	1.5	0.7	-
Public Finance	General government debt , % of GDP	IMF	24.5	24.2	24.9	24.7	26.3	27.1
	Net interest payments , % of government revenue	IMF	-0.5	-0.6	-0.7	-1.1	-1.3	-0.3
	Primary balance , % of GDP	IMF	-3.3	0.7	-0.1	-1.3	0.4	-1.2
External Economic	Current-account balance , % of GDP	IMF	4.9	6.4	6.5	5.5	6.9	12.2
	NIIP , % of GDP	IMF	66.9	38.2	39.4	39.7	33.7	-
Financial stability	Non-performing loans net of provisions , % of capital	IMF	6.2	3.7	3.9	5.4	7.3	-
	Private sector credit growth , (7y av. YoY change, %)	WB	5.5	6.2	6.2	5.1	2.9	-
ESG	CO₂ per EUR 1,000 of GDP , kgCO ₂ e	EC	97.6	95.7	83.9	80.7	82.3	-
	Income share of bottom 50% , %	WID	19.7	20.2	20.0	20.5	20.5	-
	Labour-force participation rate , %	WB	72.1	73.3	73.1	74.0	74.1	-
	Unemployment rate , %	WB	6.8	5.6	4.6	5.2	6.4	-
	Composite governance indicators* , index	WB	1.9	1.9	1.9	1.9	1.9	-
	Political stability , index	WB	1.3	1.2	1.1	1.1	1.0	-

*Average of the following four World Bank Worldwide Governance Indicators: Control of Corruption, Rule of Law, Government Effectiveness, Regulatory Quality.

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Applied methodology

[Sovereign Rating Methodology](#), March 2026

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