



Decide with Confidence

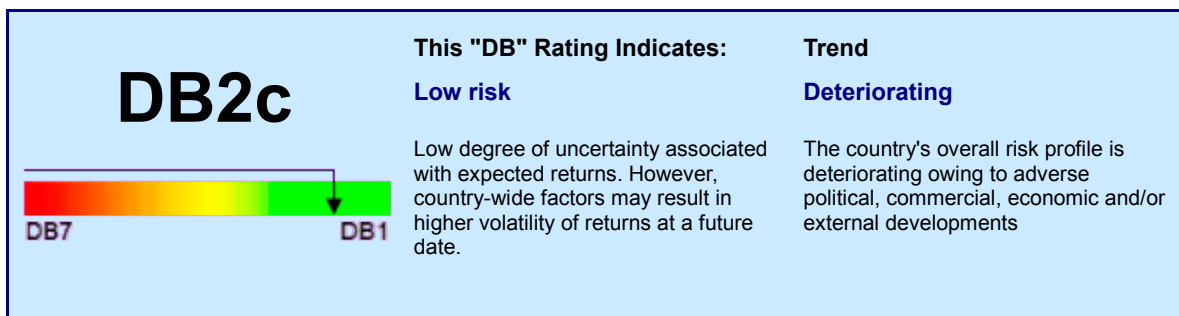
## D&B Country RiskLine Report

# LUXEMBOURG

Region : Western Europe

Edition : December 2011

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	0.5m
<b>Surface area (sq km):</b>	2,586
<b>Capital:</b>	Luxembourg
<b>Timezone:</b>	GMT +01:00
<b>Official languages:</b>	Luxembourgish, German, French
<b>Head of government:</b>	Prime Minister Jean-Claude JUNCKER
<b>GDP (USD):</b>	52.9bn
<b>GDP per capita (USD):</b>	107,577
<b>Life expectancy (years):</b>	79
<b>Literacy (% of adult pop.):</b>	99.9

### Country Overview:

The small, landlocked Grand Duchy of Luxembourg is situated in Western Europe, sharing borders (and strong cultural and economic ties) with Germany, France and Belgium. As a founding member of the EU, host to several EU institutions and trusted mediator between French and German interests, Luxembourg enjoys disproportionate influence over the direction of European integration in relation to its size. Domestic political relations in this parliamentary monarchy are harmonious, not least because the national administration is no larger than that of a medium-sized European city.

Luxembourg is one of the richest countries in the world in terms of income per head, having successfully established itself as a location for international banking, aided by favourable tax and secrecy laws and drawing on its multilingual workforce; in addition to Luxembourgish (the local language), German and French are official languages, and English is also widely spoken. However, the large size of the financial services industry, its dominant foreign ownership and the close integration of Luxembourg-based subsidiaries with their mostly European parent groups remain key concerns in the wake of the global financial crisis. Steel production remains an important industry.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	OA
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	SD
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

<b>Usual Terms:</b>	60-90 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

**FX/Bank Delays:**

0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

**Trade & Commercial Environment**

Given the ongoing euro-zone debt crisis, ongoing financial market volatility could unduly stress the country's large cross-border financial sector, affecting dealings with Luxembourg-based clients. As it is, with the economy slowing, sales and revenues are likely to come under pressure in the coming quarters, exacerbating payment risks into 2012. We would recommend SD terms with first-time Luxembourg-based clients. In many respects, the country's commercial environment remains far less competitive than its peers (e.g. starting a business, getting credit, registering property). Unfortunately, the government has done little to improve the situation in recent years. The country saw its ranking fall by six places to 50 (out of 183) in the World Bank's *Doing Business 2012* report.

**Export Credit Agencies**

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

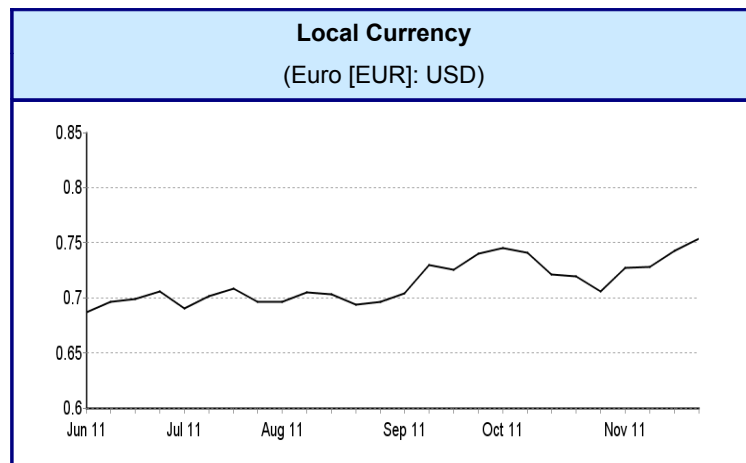
**Economic Indicators**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012f</b>	<b>2013f</b>
<b>Real GDP growth, %</b>	-3.6	3.4	3.8	3.5	3.2
<b>Inflation, annual ave, %</b>	0.4	2.8	3.5	2.3	1.6
<b>Govt balance, % GDP</b>	-0.9	-1.7	-1.2	-1.5	-1.4
<b>Unemployment, %</b>	5.7	6.0	5.8	5.6	5.4
<b>C/A balance, % GDP</b>	6.9	7.8	11.1	15.2	9.9

The EU's Economic Sentiment Indicator tracks confidence for: industry, services, consumers, construction, retail trade. Inflation and unemployment are based on EU-harmonised data.

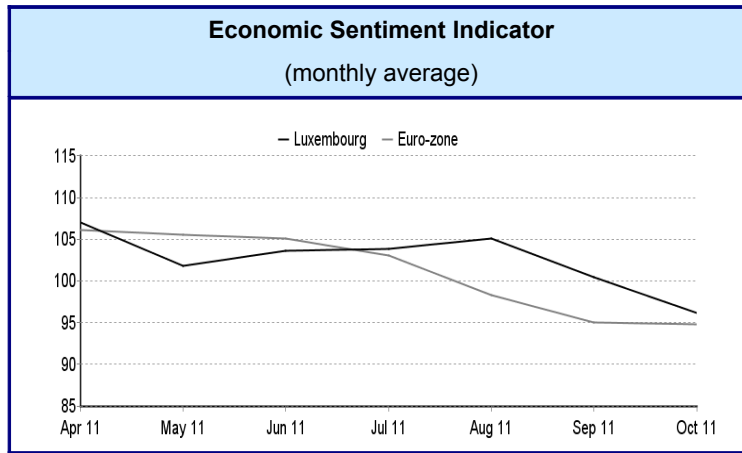
## Currency Information

Exchange Rates	
(London, 28 Nov 11)	
GBP	1.167
JPY*	0.9702
USD	0.7536
*(x 100)	



Local Currency						
(Euro [EUR]: USD)						
	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11
<b>Week 1</b>	0.686	0.690	0.696	0.704	0.745	0.727
<b>Week 2</b>	0.696	0.701	0.705	0.729	0.741	0.728
<b>Week 3</b>	0.699	0.708	0.704	0.726	0.721	0.742
<b>Week 4</b>	0.706	0.696	0.694	0.740	0.720	0.754
<b>Week 5</b>			0.696		0.705	

## Economic Sentiment Indicator



Data Table						
Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11
107.0	101.8	103.6	103.9	105.1	100.5	96.1
106.1	105.5	105.1	103.0	98.3	95.0	94.8

## Risk Factor

We have downgraded Luxembourg's country risk indicator by two quartiles to DB2c (from DB2a previously) with a 'Deteriorating' outlook. With the euro-zone debt crisis failing to abate, and the broader EU economy slowing, risks to Luxembourg's economy have escalated substantially. This is our first downgrade of Luxembourg's risk indicator since the 2008-09 recession, and it reflects the serious risks facing the country's large cross-border financial sector as a result of the euro-zone debt crisis. The sector accounts for about 30% of GDP, and is typically the main driver of economic growth. However, the sector has struggled in 2011; in the first half of the year, the country's services exports (predominantly comprised of financial services) stagnated in volume terms (growing just 1.3% in year-on-year terms). The size of the financial sector relative to the broader economy heightens the risks facing the country: banking sector assets are roughly 20 times as large as GDP, while those of the investment management industry are roughly 50 times as large as GDP. Since mid-2011 financial market uncertainty, exacerbated by the absence of any comprehensive political solutions to resolve the euro-zone debt crisis, has placed further pressure on the sector.

In October, the Luxembourg government had to intervene (with the Belgian and French governments) to guarantee the assets of Dexia bank, which was unable to meet its financing requirements on wholesale markets (as a result of concerns about its exposure to Greek sovereign debt). While the country's banks remain generally well capitalised, similar liquidity problems could emerge, if euro-zone debt worries continue to cause dislocations in European inter-bank money markets.

Given the challenges posed by the debt crisis and growth slowing substantially amongst the core EU economies, the outlook for Luxembourg's economy is much worse than just a couple of quarters ago. Consumer and business confidence has dropped sharply since mid-2011, undermining the prospects for both personal consumption and investment. Accordingly, we have revised downward our expectations for Luxembourg's GDP growth. We expect that the economy will have grown by just 1.6% in 2011 (down from a 3.8% projection earlier) and will grow by just 1.0% in 2012 (down from 3.5%) and 2.0% in 2013 (down from 3.2%). More favourably, the government deficit and debt positions will remain amongst the best in the EU throughout the forecast period, even with new obligations stemming from support for Dexia, participation in the European Financial Stabilisation Fund, loans to Greece, and capitalisation of the European Stability Mechanism. The deficit should not exceed 1.5% of GDP, while public debt will be about 20% of GDP throughout 2012-13.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

#### Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

#### Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

#### Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

#### F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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Email: [CustomerService@dnb.com](mailto:CustomerService@dnb.com)

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