

Luxembourg

Luxembourg is an international financial centre located at the heart of Europe. The financial sector includes various banking business models, from international private and wealth management, retail banking, corporate finance to fund services and depositary banking. As well as the key industries, Luxembourg boasts a unique and complete financial eco system, comprising the whole range of services and skills necessary to support and develop the industry as a whole: market infrastructures, law firms, consultants, education and training, IT partners and FinTech firms. Because of this comprehensive eco system, Luxembourg is globally recognised as an international financial hub. It has the highest banking internationalisation rate in Europe (92,4% of banks are foreign), with more than one third of banks coming from outside the European Union. These banks operate on a cross-border basis, using the EU passport for financial services throughout Europe, particularly in private banking, corporate banking and asset servicing.

The Luxembourg economy grew by 6.9% in 2021 compared to the previous year, a direct result of the health pandemic. Employment grew 3,1% year-on-year, and was up slightly by -1,45% in the financial sector. The Luxembourg financial services workforce is internationally recognised as extremely skilled, multicultural and highly productive. The financial sector is the primary engine of the national economy, contributing [23%] (16.8 billion) of the country's total economic output (73.3 billion) and representing [14%] (64.592) of total employment (458.200). About 76% of the corporate income tax and the municipal business tax stem from the financial sector.

The balance sheet total of banks in Luxembourg is €951,7 billion (+11,95%), and banks have sufficient own funds to face any potential challenges, with a capital ratio of 24,25% (2021), well above the thresholds. Loans increased by 12,73% year-on-year, thanks to the contribution of the retail, private and corporate banking sectors. Deposits increased by 15,4% between 2020 and 2021. Deposits are generally higher than outstanding loans, ensuring a robust stability and high levels of liquidity in Luxembourg credit institutions.

Luxembourg has always welcomed international financial institutions, attracted by the AAA rating of the country, the extensive financial ecosystem, and the highly qualified international workforce. It is also leveraging these unique strengths to position itself as a leader in innovative financial technologies, with a close cooperation between the financial institutions and FinTech companies, facilitated both by the ABBL and other public-private partnerships. Similarly, Luxembourg's commitment to sustainable finance has created an ideal environment for mobilising international capital to fund green projects. Luxembourg is a frontrunner in pushing for the most advanced solutions, testing and implementing new approaches to ensure that sustainable finance products are widely available and that the offer is constantly being expanded.

Building on its strong track record of openness, stability and agility, Luxembourg is a key location for e-commerce, e-payment institutions and FinTechs directly linked to financial services. The open and constructive dialogue between the relevant players (public, private and supervisory) ensures that Luxembourg continues to be an attractive and secure place to do business.

Contributor: Luxembourg Bankers Association - Paul Wilwertz paul.wilwertz@abbl.lu