The Luxembourg Economy and its Competitive Advantages

Carlo Thelen,
Chief Economist of the Chamber of Commerce
Luxembourg - Gateway to Europe
Strategic Position

Area: 2,586 km²
Population: 460,000
Language: Lëtzebuergesch
Administrative languages: French, German

Proven gateway to EU market with 500 million consumers
Direct access to the markets of France, Germany and Belgium
Greater Region: one of the most dynamic regions of the EU

Grand Duchy of Luxembourg, Wallonia, Lorraine, Rhineland-Palatinate, Saarland

Area: 65,400 km²
Population: 11.3 million
Part of euro zone’s GDP: 3.4%
3% average GDP growth (2000-2005)
Over 375,000 companies
50,000 new companies per year
15 universities with 223,000 students
Luxembourg - A skilled multilingual labour force
Melting pot of cultures and nationalities

- 40% foreigners
  - Portuguese: 37.3%
  - French: 12.6%
  - Italian: 10.3%
  - Belgian: 8.9%
  - Spanish: 2.0%

- 310,000 wage earners
- 65% foreign labour force
- 40% of total employment = commuters

=> Luxembourg & neighbouring regions: availability of 5 million experienced and qualified labour force
Luxembourg - Key actor in the European Union
Integration into larger entities
Luxembourg – A Sound Business Environment

- Stable political situation and social peace
- Very open and yet safe country
- High quality of life; High purchasing power
- Key actor in the European Union
- Easy access to decision makers
- Modern infrastructures
- Research centres and business parks
- A skilled multilingual labour force
- Melting pot of cultures and nationalities - 40% foreigners
<table>
<thead>
<tr>
<th>Country</th>
<th>Nominal Taxation Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>38.31</td>
</tr>
<tr>
<td>Italy</td>
<td>37.25</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td><strong>35</strong></td>
</tr>
<tr>
<td>France</td>
<td>33.83</td>
</tr>
<tr>
<td>Belgium</td>
<td>33.99</td>
</tr>
<tr>
<td>Netherlands</td>
<td>31.5</td>
</tr>
<tr>
<td><strong>Luxembourg</strong></td>
<td><strong>30.38</strong></td>
</tr>
<tr>
<td>Great-Britain</td>
<td>30</td>
</tr>
<tr>
<td>Denmark</td>
<td>30</td>
</tr>
<tr>
<td>Sweden</td>
<td>28</td>
</tr>
<tr>
<td>Portugal</td>
<td>27.5</td>
</tr>
<tr>
<td>Finland</td>
<td>26</td>
</tr>
<tr>
<td>Latvia</td>
<td>15</td>
</tr>
</tbody>
</table>

Normal VAT rate: 15% (EU lowest)  
Reduced rates: 3%, 6%, 12%
### Tax/Benefit Position and Labor costs (in US$ using PPP, 2005)

#### Employer social charges

<table>
<thead>
<tr>
<th></th>
<th>Luxembourg</th>
<th>France</th>
<th>Belgium</th>
<th>Germany</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Labour Cost</td>
<td>113.7</td>
<td>136</td>
<td>124.8</td>
<td>120.1</td>
<td>111.7</td>
</tr>
<tr>
<td>Gross salary</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

#### Employee taxes and social charges

<table>
<thead>
<tr>
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<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Gross Wage earnings</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Central Government Income Tax</td>
<td>1</td>
<td>8</td>
<td>19</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Employee's Social Security Contribution</td>
<td>14</td>
<td>14</td>
<td>11</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Net</td>
<td>85</td>
<td>78</td>
<td>70</td>
<td>72</td>
<td>73</td>
</tr>
</tbody>
</table>
## Key Macroeconomic Figures

<table>
<thead>
<tr>
<th></th>
<th>1985 - 2005</th>
<th>2005</th>
<th>2006</th>
<th>2007*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>5.1%</td>
<td>4.0%</td>
<td>6.2%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>2.3%</td>
<td>4.2%</td>
<td>4.5%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Employment growth</td>
<td>3.3%</td>
<td>3.0%</td>
<td>3.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.3%</td>
<td>2.5%</td>
<td>2.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Current account surplus in % of GDP</td>
<td>Average: 10%</td>
<td>11.1%</td>
<td>11.3%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Statec, * forecast
Luxembourg - A diversified Economy

Industry

10% of GDP; 15% of Employment
Iron and Steel Industry
Metal Processing
Chemical Industry, Materials, Plastics
Non-Metallic Mineral Industry
Electric and Electronic Industry, Automotive Component Industry
Food Industry
Luxembourg - A diversified Economy
Service Sector
82% of GDP; 75% of Employment
Services Sector 2006 (%)

- Market services (advertising, accounting, tax experts, security, cleaning, ...): 39%
- Trade: 16%
- Catering & lodging: 4%
- Transportation: 7%
- Communication: 5%
- Credit & insurance institutions: 29%
Financial Center

Impact on the Economy

32% GDP

11% Employment
Strategic Location for Logistics, Excellent connectivity to markets

- Commercial neutrality
- Extended road, rail, flight and waterway connections
- More than 120 companies specialized in handling, warehousing and organization
- About 550 transport companies
- Development of modern logistical parks close to the international airport
- 5th largest European freight airport (1 million t annual freight handling capacity)
Logistical operators

- Cargo operators: Cargolux, China Airlines, China Eastern, Atlas, Jade Cargo, ...

- Handling companies: Luxair, Swissport

- Major logistic service providers: Kühne & Nagel, PanAlpina, DHL, Schenker, FedEx, Nippon Express

- River port of Mertert for heavy bulk traffic (steel and petroleum products)

- Multimodal rail / road terminal
Luxembourg:
the place for Media, ICT and E-commerce

- SES: the world’s largest satellite operator

- RTL-Group:
  one of the world’s largest integrated broadcasting operators, N°1 in TV and Radio Broadcasting in Europe (38 TV channels and 29 Radio stations in 10 countries)

- Several competing telecom infrastructures and service providers
  Luxembourg Telecom, Tele2, Cegecom, MCI, Microsoft, AOL, Amazon, iTunes (Apple), Skype
Health Technologies in Luxembourg

- Objective:
  To promote Luxembourg as a prime location for businesses in selected areas of health technologies

- Targeted economic applications:
  Medical devices and support services (e.g. nanotechnologies, communication and information technologies, intellectual property management)

- Targeted phase:
  Post-approval phase (production and marketing)
Trade balance
(billion EUR, 2006)

Total exports from Luxembourg: 11.38
Total imports to Luxembourg: 15.54
Trade balance with Spain
(million EUR, 2006)

Total imports from Spain (11th supplier): 135.36

Total exports from Luxembourg (7th customer): 375.22
An Open Economy: Current Account (billion EUR, 2006)

Goods: -3.4
Revenues: -8.3
Current transfers: -1.3

Surplus: 3.5
=> 11.3% of GDP
Services: 16.6
Luxembourg: a Prime Business Location

• An open and diversified economy
• Located in the heart of Europe
• With a high growth potential
• With dynamic and innovating companies
• Attractive for trade and investments