

**COUNTRY PROFILE:****GRAND DUCHY OF LUXEMBOURG****DATED:****JANUARY 2012****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<b>Export Department Comment/Opinion</b>	Rating 1A. Cover considered on an open basis. High exposure and a fair amount of commitments. No claims experience. (Euler Hermes: AA; Atradius: 1; Coface:A1/A2) Sanctions: None
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***Recent Political Highlights***

- Luxembourg is stable with no history of political instability.

***Recent Economic Highlights***

- This small, stable and high-income economy - benefiting from its close proximity to France, Belgium and Germany - has historically featured solid growth, low inflation and low unemployment.
- The country has a population of 503,302 and a literacy rate of 100%. The country boasts the highest GDP in the world, unemployment is around 6% and there is no one living under the poverty line.
- The government is funding a project to increase tourism activities and assist the goal of sustainable poverty reduction in the province of Quang Nam.
- 60% of the economy's labour force is made up of foreign cross-border workers mainly from France, Belgium and Germany.
- Most banks are foreign owned owing to the country's openness to foreign investment and being regarded as a solid financial centre. In addition, Luxembourg is the biggest investment centre in the world, after the United States. Wealth management, asset management, insurance, international loans and structured finance are also areas in which Luxembourg has earned an excellent reputation.
- The country has reduced the frequency of its salary adjustments for three years with the next salary increase being in October'12 as opposed to March'12. Prime Minister Jean-Claude Juncker estimates that this change will save his government €50m in 2012 and the private sector €225m. In October'12 workers should earn an automatic 2.5% pay rise with inflation seen at around that level over 2012 and 2013.
- Qatari investors are buying Dexia Luxembourg the failed Franco-Belgian bank for €730m. The Qatari investors through Precision Capital (a Qatari Company with prime minister amongst its board members) will acquire 90% of the shares in Dexia Luxembourg while Luxembourg will hold the remainder; however the deal still requires regulatory approval.
- Luxembourg is known for being proactive in responding to any development in Europe or beyond and that may have an impact on its position as a global financial centre. The head of the central bank, Yves Mersch does however fear that the credit crunch, in the wake of the debt crisis in the eurozone, could push the economy into a recession. ABN AMRO Private Banking predicts a recession whatever the outcome of the crisis forecasting negative GDP growth of -0.8% against a market consensus of 0.6% for Q1 2012. This debt crisis is causing s banks, which provide about 75% of companies with financing, to have difficulty in supplying the economy with credit.
- Luxembourg was amongst the six eurozone nations with AAA ratings that were put on "credit watch negative" in Dec'11 by credit rating agency S&P. Although Luxembourg escaped a downgrade, France's credit rating was downgraded creating further instability in the euro zone as a whole.

***Latest Trade Developments***

- Export commodities include: machinery and equipment, steel products, chemicals, rubber products, glass.
- Import commodities include: minerals, metals, foodstuffs, quality consumer goods.
- Main trading partners: Germany, France, Belgium, UK, China.
- SA's exports to Luxembourg totaled R333m in 2009, R74m in 2010 and R120m YTD October 2011.
- SA's imports from Luxembourg totaled R220m in 2009, R270m in 2010 and R355 YTD October 2011.