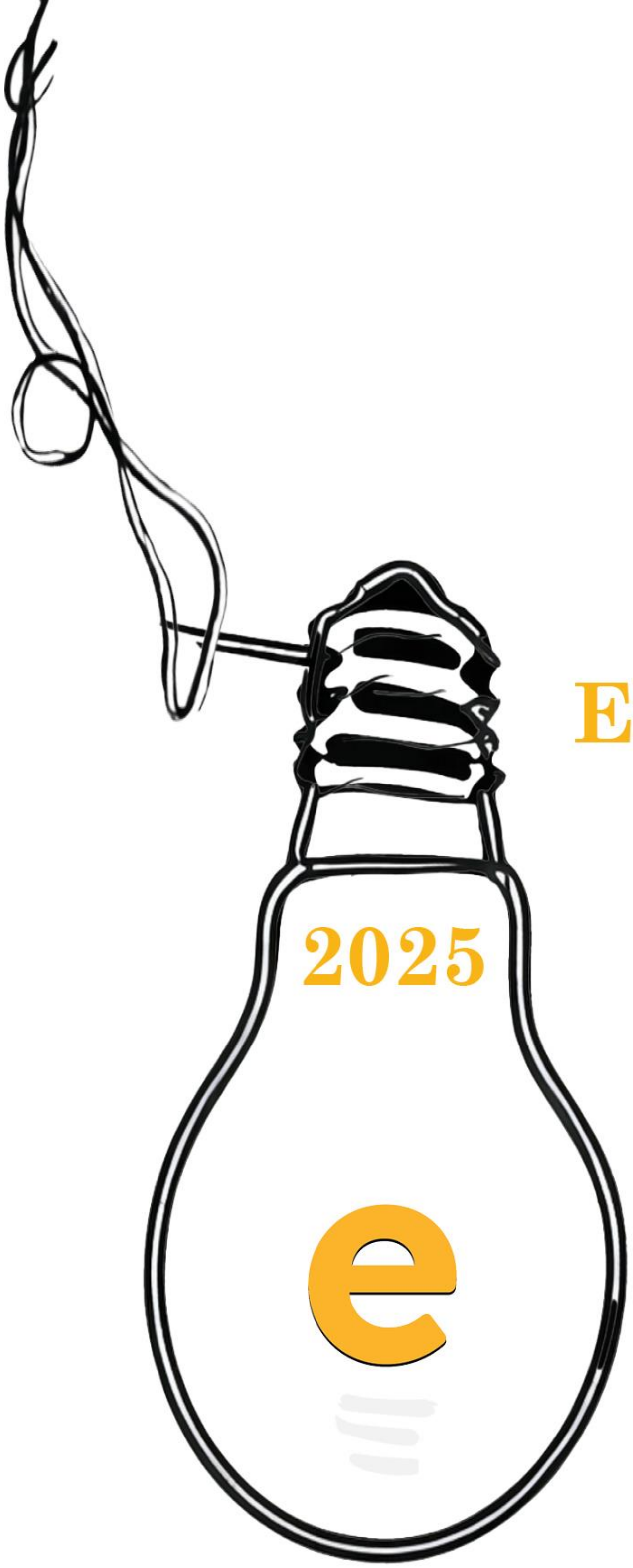


Economic Consensus

Lost in Transition

IDEA

IDEA ECONOMIC CONSENSUS: LOST IN TRANSITION

The aim of the IDEA Economic Consensus is to reveal and analyze the feelings of a panel of economic and political decision-makers, social partners and economists on the main trends in economic development, the preferred macroeconomic scenario for Luxembourg, as well as the major political and economic challenges and the responses to these challenges.

The consensus results do not reflect the opinions of IDEA's economists, but those of the 115 panel members who responded to an anonymous questionnaire (13 questions online) between February 25 and March 19, 2025. This represents a response rate of 43% out of 265 panel members[1].

This is the 6th IDEA Economic Consensus exercise, born one year before the shock of the Covid crisis. The consensus thus reflects the major socio-economic events and trends of the moment, with certain 2020 topics such as the Brexit, Trump's Sino-American trade war and the tightening of budgetary rules being replaced by Trump's new trade war, the rise of artificial intelligence, the European defense effort, or the crisis in Luxembourg's construction sector. New themes are making their appearance. Many others are a constant in European and Luxembourg socio-economic debates, but this does not prevent an evolution in the opinion of the panelists, who tell us in 2025 that :

- the golden age of Luxembourg growth is certainly behind us, at least for the next 5 years;
- public debt should remain below 30% of GDP by 2030;
- AI will evolve and transform the Luxembourg economy and, in particular, the financial center, without revolutionizing them;
- we must not negotiate with climate targets, but do more to achieve them;
- pensions will have to be reformed, but there is reason to doubt that this will be done by 2025;
- competitiveness policy at European level needs to be profoundly strengthened.

1 Cf. panel's details and the attached questionnaire

“Some bets” on 2025

One year follows another for the IDEA Economic Consensus. The survey period falls in the midst of geopolitical and economic turmoil. In this first quarter of 2025, it is the start of Donald Trump's 2nd term in office that has caused upheaval, with trade wars heating up and US defense policy towards Europe changing. These themes, and their consequences, are reflected in the European dimension of the consensus, but also have an impact on the socio-economic challenges of a Luxembourg that is struggling to see the post-crisis rebound.

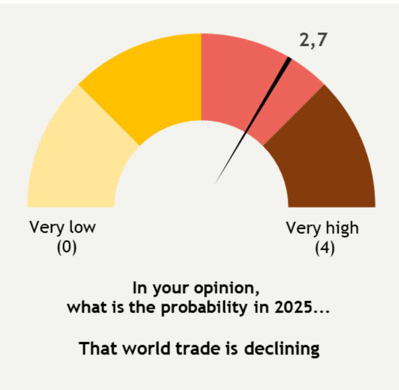
International context: insufficient political responses

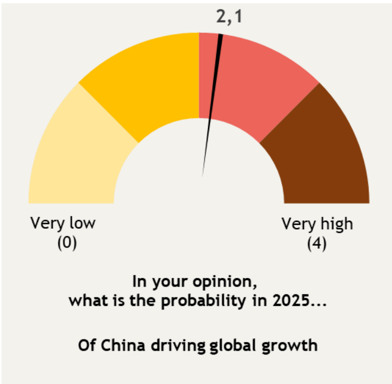
Protectionist temptations and policies have, more often than not, slowed rather than halted the advance of world trade since its tremendous expansion over the past 40 years. However, the panelists believe that the story will be different in 2025, due in particular to the very high tariffs imposed by the Americans. In fact, 66% of panelists believe that there is a fairly high or very high probability that world trade will decline this year.

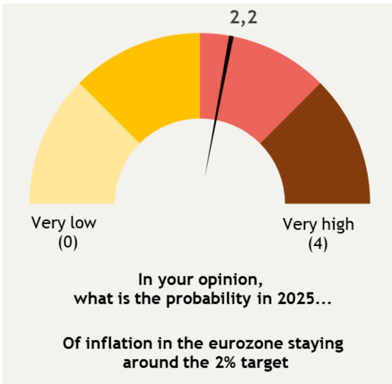
Additionally, a slight majority believe that China will be the engine of global growth, despite China's GDP having risen by 5% in 2024, held back by the protracted property crisis, in an economy focused on industrial exports.

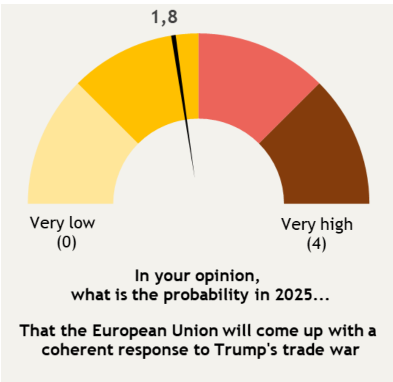
The eurozone should succeed in keeping inflation around 2%, after the recent price surge, with 43% of panelists considering this to be a high probability, compared with 23% leaning towards a low probability. On the other hand, they are less confident about the European Union's ability to provide a coherent response to Trump's trade war, despite the regular announcement of firm and proportionate countermeasures by European Commission President Ursula von der Leyen.

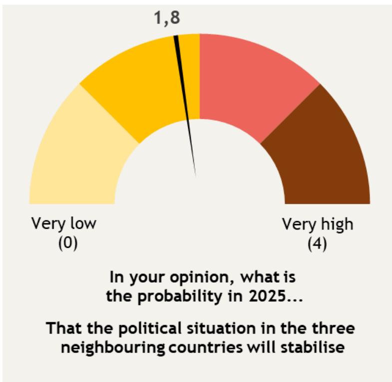
Finally, the recent German elections, a French government in place since the end of 2024 and a five-party coalition established at the beginning of February 2025 in Belgium do not dispel all the panelists' doubts about maintaining political stability in the three neighboring countries.











A look back at the 2024 consensus bets

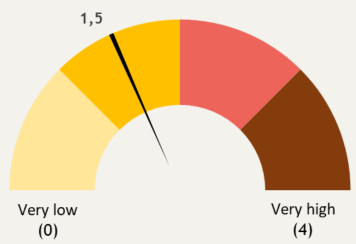
Based on a questionnaire administered between February 6 and 23, 2024, the fifth edition of the Economic Consensus had already taken place against a backdrop of high geopolitical tensions, just when we could have imagined the end of the polycrisis. Panelists had strong doubts as to whether these geopolitical tensions would abate, while they remained wary of inflation's ability to reach the 2% target and felt that a recession was possible in the eurozone. Pessimism was also the order of the day in Luxembourg, with expectations of a worsening budget balance and doubts as to whether an increase in labor productivity could be achieved. Respondents were also less confident about a possible rebound in the construction sector following the first tax measures to be implemented.

2025, a year of expectation

2025 will not be the time for major maneuvers, at least as far as pension reform is concerned, which will not be decided by the end of the year according to a majority of those surveyed as part of the consensus. This would be even less the case for the approximation of tax thresholds for telecommuting (currently 34 days) and social security thresholds (112 days), an issue that is in the news because it is considered unfair by some cross-border commuters.

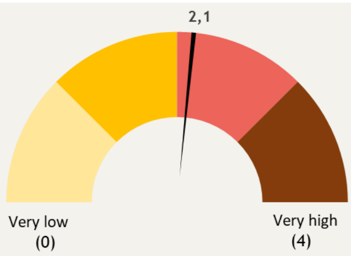
Compared to last year, the panelists show an extra touch of optimism. For example, as many of them consider an increase in VEFA construction as “unlikely” as “probable”, whereas last year they were relatively dubious about the effect of tax measures on the construction sector. In addition, the same question was asked at 12-month intervals about the likelihood of tax revenues growing at a slower rate than public spending, with the probability score falling from 2.8/4 in 2024 to 2.1 in 2025.

However, employment is unlikely to regain its past momentum of over 2% growth, according to the panelists, 55% of whom consider this possibility to be very low or rather low, compared with only 8% who rate it as rather high or very high. The reasons for this lack of confidence could be as much international - as a result of the slowdown in world trade - as Luxembourg-based, such as difficulties in the housing market or the internal dynamics of certain economic sectors.



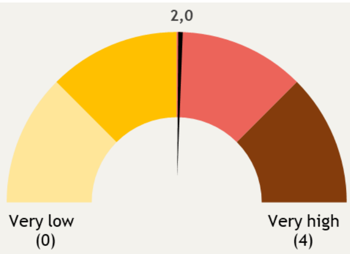
What is the likelihood in the Luxembourgish economy that, in 2025…

Employment growth will return to levels above 2%



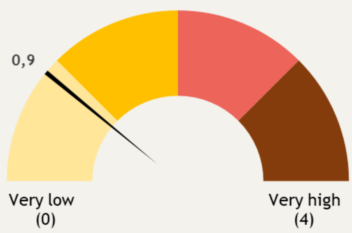
What is the likelihood in the Luxembourgish economy that, in 2025…

That tax revenues will increase less quickly than public spending



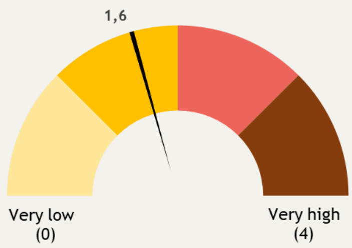
What is the likelihood in the Luxembourgish economy that, in 2025…

That the number of constructions (VEFA) will rise again



What is the likelihood in the Luxembourgish economy that, in 2025…

The tax thresholds for teleworking by cross-border commuters will approach the current social thresholds



What is the likelihood in the Luxembourgish economy that, in 2025…

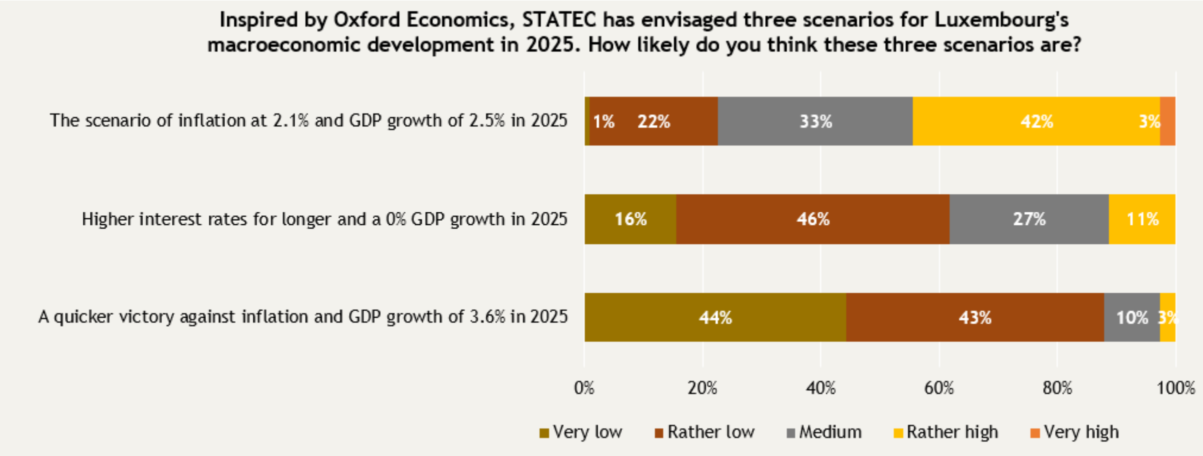
A pension reform will be decided

Luxembourg macroeconomic scenario

5, 4, 3, 2% growth

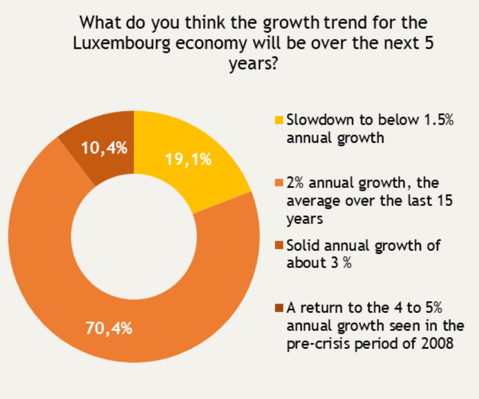
STATEC's central scenario in its economic outlook[2] for the 2nd half of 2024 anticipates an inflation rate of 2.1% and Luxembourg GDP growth of 2.5% in 2025. As it does every year, the national statistics institute has also drawn up two alternative scenarios, one more optimistic and the other more pessimistic, for future economic conditions. Inspired by Oxford Economics, the two alternative scenarios simulated are “higher interest rates for longer”, which would trigger a recession in the eurozone with GDP growth of -0.2% in 2025 and 0% in Luxembourg, and a “victory over inflation”, which would result in growth slightly higher than the central scenario of +1.5% in 2025 in the eurozone and 3.6% in Luxembourg.

The panelists are leaning towards STATEC's central scenario, even though a significant proportion (23%) consider it to be very low or rather low probability. While the two alternative scenarios are mostly considered unlikely, 11% of the panel believe that the pessimistic scenario of 0% growth has a rather high probability of materializing. This is the case for 3% of respondents for the optimistic scenario. One explanation for this choice of the more pessimistic scenario could be the recent trade policy decisions of the United States, which, if announced as early as last November, are coming to fruition in the spring of 2025.



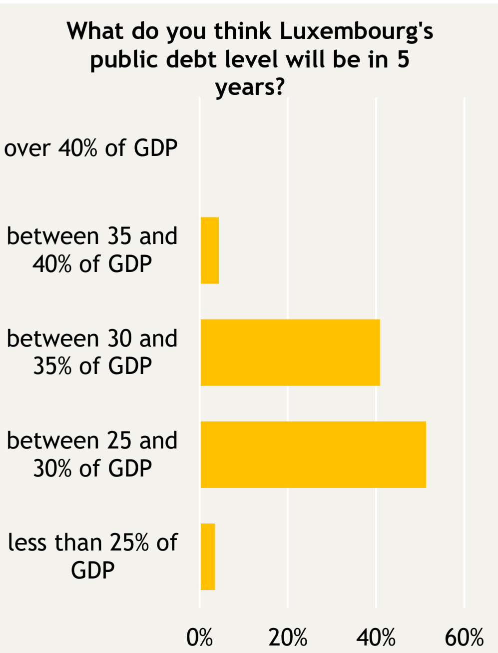
None of the 115 respondents to IDEA's consensus survey sees Luxembourg returning in the next 5 years to the growth levels of its golden age, which in the graph below stretches from 1996 to 2007. In fact, a significant majority (70.4%) anticipate GDP growth of 2% over the next 5 years, the average for the last 15 years. However, almost one panelist out of five believes that growth will be less than 1.5%, levels which could accelerate future deficit trajectories for pensions and Social Security in general. Finally, 10.4% of respondents to the consensus forecast solid annual growth of 3%, which would kick-start Luxembourg's “economic machine” after the period of polycrisis.

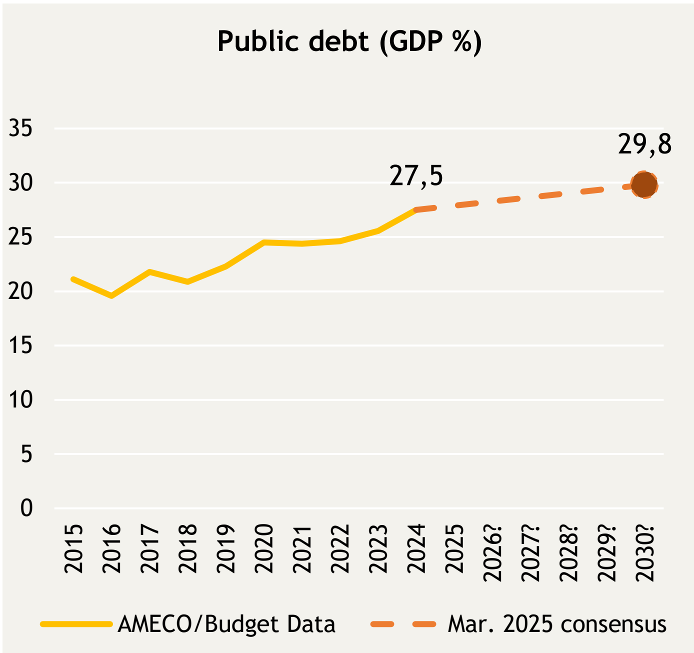
[2] Note de conjoncture 2-2024, La situation économique au Luxembourg - Évolution récente et perspectives, STATEC.



A reasonable increase in public debt

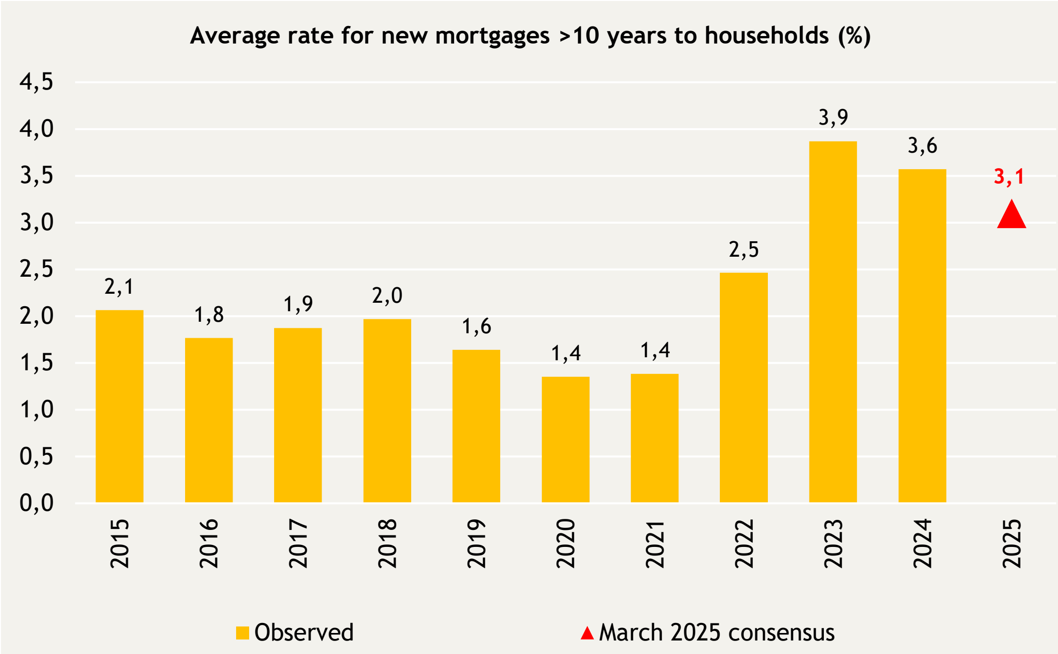
Last year, the panelists estimated that public debt would exceed 30% of GDP by 2029, reaching 30.4%. This year, they anticipate a more fiscally virtuous trajectory, with the level of public debt rising, but only to 29.8% in 2030, i.e. 2.3 percentage points higher than in 2024. This trajectory would exceed the 26% of GDP public debt anticipated in 2028 in the last multi-year budget. 4 out of 115 respondents estimate that debt will be less than 25% of GDP in 2030, and 5 panelists favor a debt of over 35% (but less than 40% in all cases).





The downward trend in interest rates is set to continue

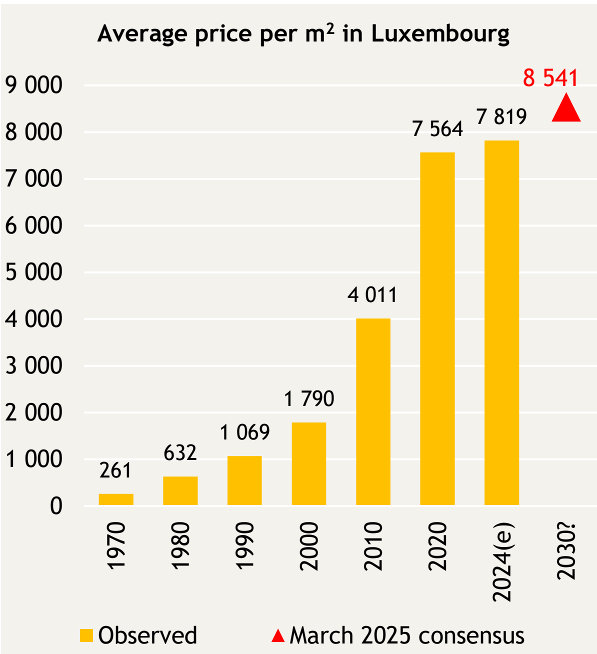
Whether through perspicacity or serendipity, the panel had accurately guessed the average interest rate for new mortgages over 10 years at 3.6% for the year 2024. As for 2025, they predicted that the downward trend would continue, with an interest rate equal to 3.1%, well above the level seen between 2015 and 2021. In the face of economic uncertainty, the ECB decided in early March to cut its key rates for the sixth time in just eight months, returning them to their level of two years ago. The European Central Bank remains cautious, however, and avoids committing itself to future rate hikes or cuts.

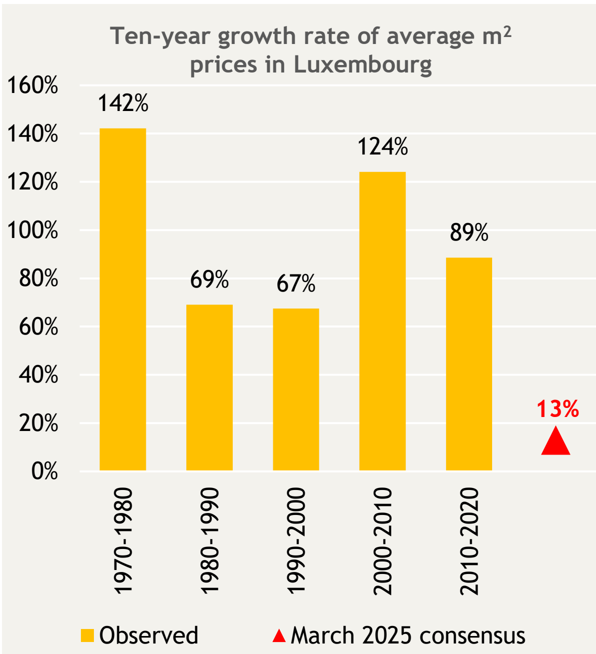


Real estate: disappointed hopes and good news?

Property prices have fallen, and so have expectations of medium-term rises. Whereas last year's panelists were still forecasting a price per m² in excess of 10,000 euros by 2030, this estimate is now down to 8,541 euros according to the 2025 consensus respondents. The ten-year change in average m² prices would thus be remarkably low during the 2020 decade, falling from an increase of 124% during the 2010s to just 13% between 2020 and 2030. The hope of a continued rise in property prices for those who have recently invested has been dashed.

Is this good news? That was the consensus in 2024. When panelists were asked last year whether or not it would be desirable for property prices to fall by 10%, they were three times more likely to answer in the affirmative than in the negative.





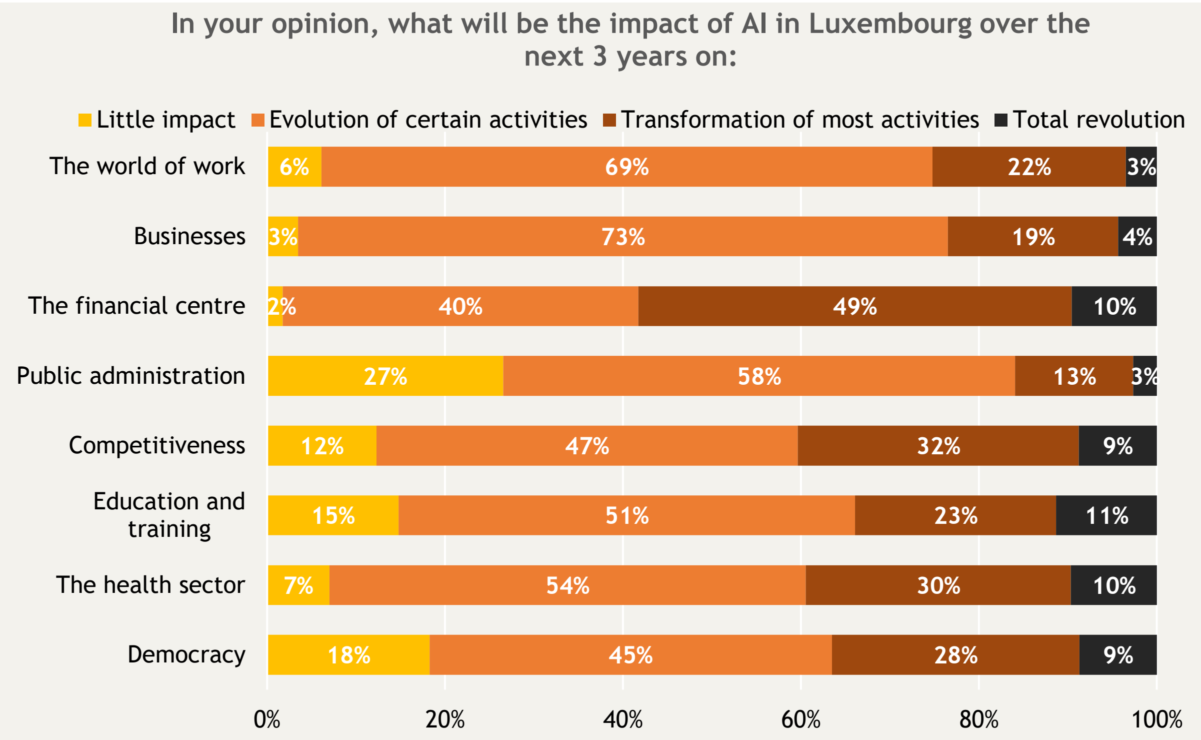
Sources: STATEC, CHD, BRI, Consensus IDEA

AI: Evolution, transformation, revolution...

At the heart of technological, economic and philosophical debates since Chat-GPT went public in November 2022, AI could not be absent from the IDEA 2025 consensus. The panelists were asked about the impact that AI would have over the next 3 years in Luxembourg in a few areas. On average for the 8 areas tested, 11% of respondents felt that AI would have little impact, 55% that some activities in the area would evolve, 27% that most of the area would be transformed, and 7% that a total revolution in the area would take place.

The vision of AI's impact differs from one field to another. It is also possible to categorize these fields. It is the financial sector that will be most affected, with 10% of panelists predicting a total revolution due to AI, and 46% predicting a transformation of the majority of the business. The financial sector is thus one of the areas where AI could be disruptive. This is also the case, to a lesser extent, for healthcare and competitiveness. At the other end of the spectrum, public administration, although affected by AI, is the least transformed domain.

Two other area categories stand out. The world of work and business would certainly see an evolution or even a transformation of their activities due to AI but, certainly due to their scale and heterogeneity, it is not considered that they could be revolutionized in their entirety. Concerning democracy, and education and training, the opinions of the panelists are more polarized, with some anticipating little impact, while others foresee a total revolution following the development of AI in society. These differences of opinion are a reflection of a technology whose potential is still unclear, and for which people's visions are diverse, between promises and apprehensions, fantasies and the first perceived limits.



Consensus on pensions and ecology, differences on taxation and cross-border commuters

Five statements were tested on Luxembourg's major economic and social issues and the public policies to be devoted to them. Panelists were given a choice of five responses, according to their degree of approval or disapproval of the statements tested[3].

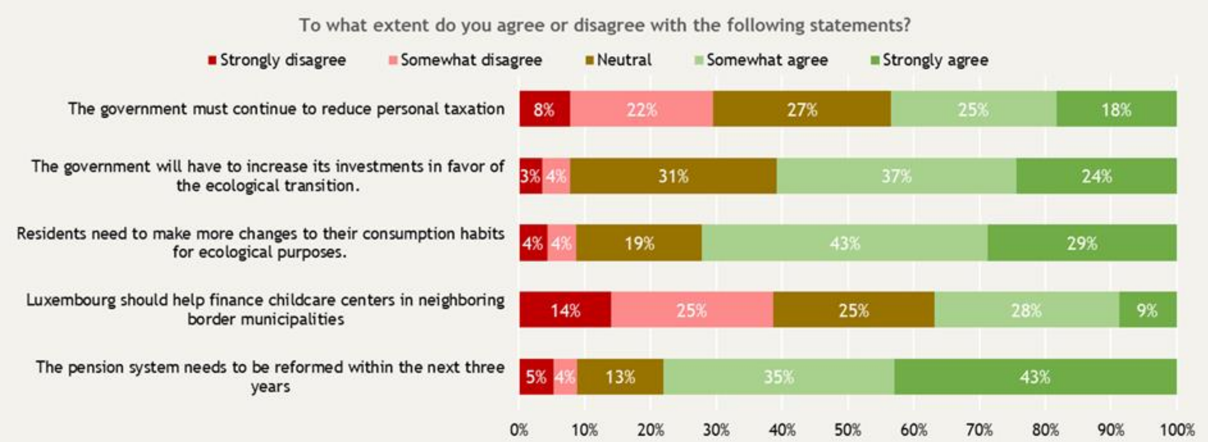
[3] Strongly disagree, Somewhat disagree, Neutral, Somewhat agree, Strongly agree, each represented by emoticons.

Three of these received a resounding endorsement from panelists. At a time of uncertainty about the ability to meet the environmental targets set by the European Union and Luxembourg, the consensus respondents called for more to be done, both for the state and for its citizens. Changing the consumption habits of residents appears to be a crucial aspect of the ecological transition according to the panelists, with 72% of respondents agreeing or strongly agreeing with this statement. The same question was asked last year about government investment in ecological transition. Agreement with this statement was even more pronounced in 2024, and is therefore in slight decline.

When it comes to the need to reform the pension system within the next three years, a statement tested last year, the majority of panelists are in favor, and even more so than in 2024, with 43% of respondents strongly agreeing in 2025 versus 35% in the previous edition of the consensus. In April, IDEA presented 4 potential pension reforms[4] that could inspire future political choices.

Opinions are more divided on the continuation of personal income tax cuts, despite the fact that this was one of the major orientations of the government elected at the end of 2023. Some 30% of panelists were opposed to the idea, while 43% were in favor. It may be some time before we see the macroeconomic effects of tax cuts, drowned out by the uncertainties arising from a new era of trade war.

Similarly, panelists' opinions diverge on the need to help fund crèches in neighboring border towns, with the no vote winning by even a head, with 39% of respondents strongly disagreeing and somewhat disagreeing against 37% somewhat agreeing or strongly agreeing.



Compasses, yes, but which compasses?

“There are decades when nothing happens, and there are weeks when decades happen”. This is the quotation (from Lenin) in vogue at the start of 2025. Faced with this acceleration of events, the European Union is (re)acting and adopting new policies, an observation that can be traced back to the Covid crisis.

The Competitiveness Compass is one of the most recent initiatives to strengthen the European economy. It could, in part, respond to panelists' desire to “strengthen Europe's industrial sovereignty, even if it means calling into question certain rules linked to competition and/or free trade”, a subject on which strong support (82% of respondents strongly agree or somewhat agree) is even stronger than last year.

Continuing according to panelists' level of support, the introduction of “a system for directing European savings towards the major challenges facing Europe” is also strongly supported, given that the under-capacity of European companies - and start-ups in particular - in terms of equity capital is at the heart of their current lack of competitiveness.

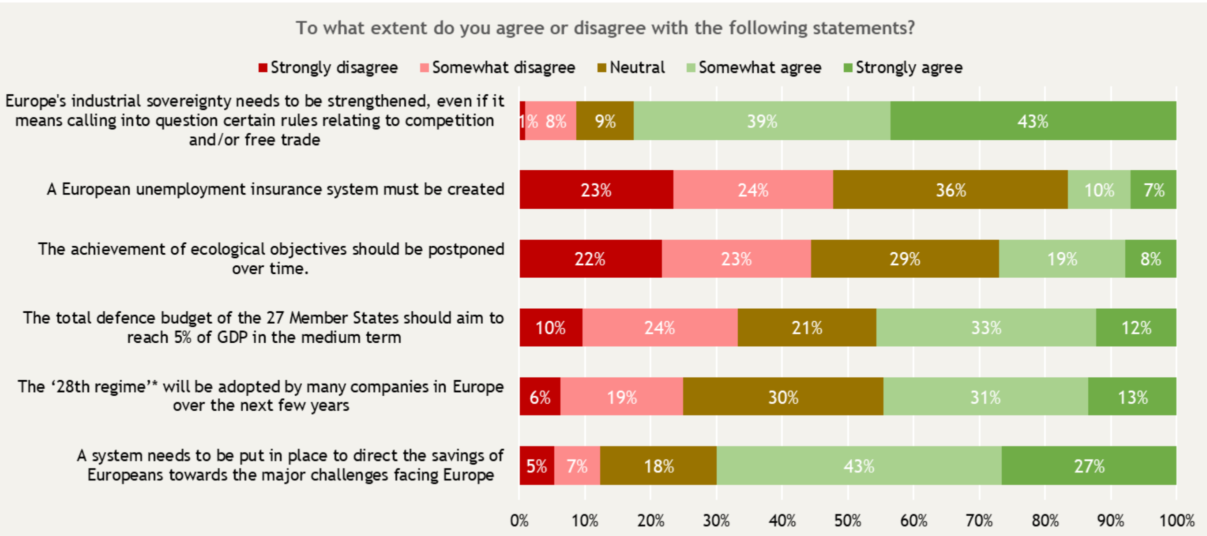
[4] Document de travail N°31 : Pensions, un quatuor de réformes, IDEA, Avril 2025.

As part of the European Competitiveness Compass, the Commission will propose a simplified "28th regime"[5] enabling "innovative" companies to benefit from harmonized rules across Europe. A majority of panelists (45%) believe that this administrative simplification initiative will be a success, although a more circumspect minority remain (25%).

Increasing the defense budget, yes. But in what proportions? The consensus proposed an increase of up to 5% of GDP in the medium term - a particularly substantial increase, especially in view of Luxembourg's current target of 2% of GNI. Opinions differed on this possibility, but the majority was in favor (46% vs. 33%).

With regard to climate targets, despite persistent doubts about their achievability and criticism of their potential negative impact on competitiveness, a majority of panelists (44%) support maintaining them until 2030, while 27% would like to see them postponed.

Finally, in 2020, IDEA questioned the panelists on the relevance of creating a European unemployment insurance system. 50% of them considered such a European system to be rather unnecessary, 24% were neutral and 26% considered it to be rather necessary. 5 years on, the situation remains the same. While European initiatives are multiplying, subsidiarity remains one of the main compasses for the division of tasks between the European Union and its member states.

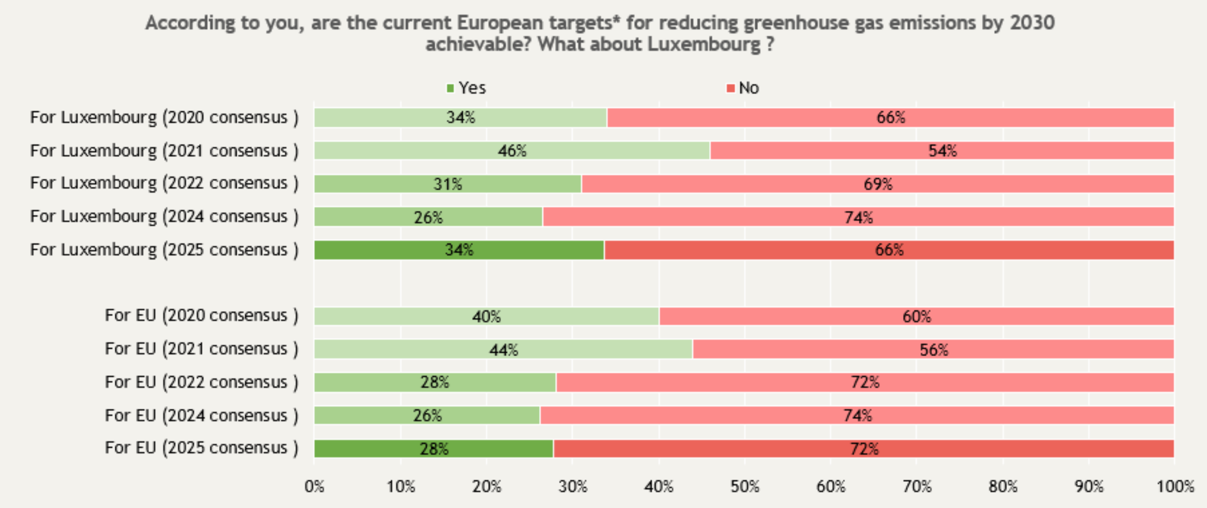


Climate target: 2030 coming up fast

When IDEA first asked panelists to rate the likelihood of meeting climate targets, Luxembourg and the European Union had 10 years left to put in place the policies needed to meet this ambitious challenge. In 2025, halfway through this period, the trajectory of greenhouse gas reductions is taking shape. Progress is tangible, as illustrated in the section "Climate objectives: real progress, but a sustained effort is needed" in the 2025 IDEA annual report. However, there is still a long way to go[6].

A majority of respondents do not believe that current targets are achievable, at least by 2030. After a decline over the years, a slight upturn in optimism is emerging compared to last year, which mainly concerns Luxembourg.

[5] The 28th regime would be a single, simple set of rules applicable throughout the European Union, enabling young innovative companies not to adopt each of the member states' regimes in order to develop.
[6] See question 11 of the attached questionnaire for a quantified trajectory of greenhouse gas emissions.


According to you, are the current European targets* for reducing greenhouse gas emissions by 2030 achievable? What about Luxembourg ?
Yes
No
For Luxembourg (2020 consensus)
34%
66%
For Luxembourg (2021 consensus)
46%
54%
For Luxembourg (2022 consensus)
31%
69%
For Luxembourg (2024 consensus)
26%
74%
For Luxembourg (2025 consensus)
34%
66%
For EU (2020 consensus)
40%
60%
For EU (2021 consensus)
44%
56%
For EU (2022 consensus)
28%
72%
For EU (2024 consensus)
26%
74%
For EU (2025 consensus)
28%
72%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

APPENDIX: ECONOMIC CONSENSUS PANEL AND QUESTIONNAIRE

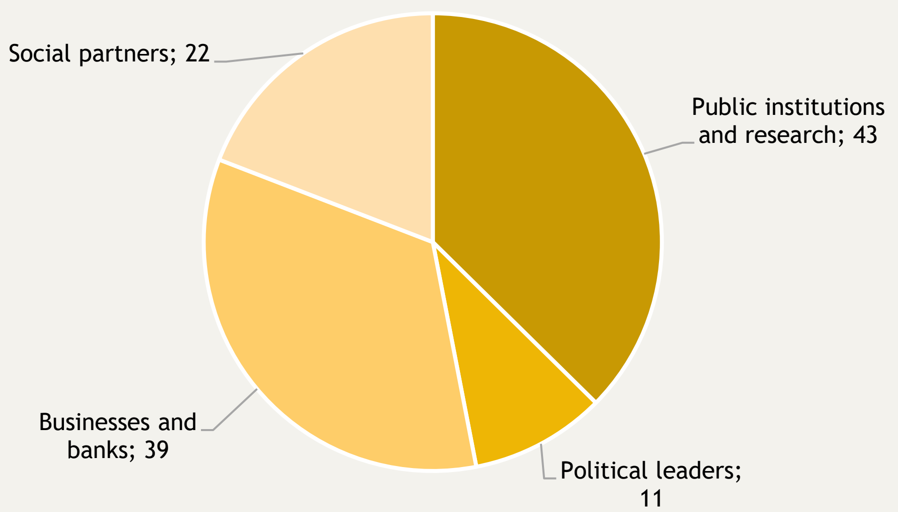
Panel

265 Luxembourg economic decision-makers, politicians, social partners and economists from four main categories were selected to make up the panel: companies (including the financial sector), public and research institutions, politicians and social partners (employers' and employees' organizations).

Consensus members were selected on the basis of a simple criterion: holding a profession or a representative mandate requiring, a priori, knowledge and/or regular analysis of Luxembourg's major macroeconomic data.

115 people responded to the anonymous personal questionnaire (11 questions online), giving a response rate of 43%, slightly down on the rate observed for the February 2024 consensus (50%), but with a similar total number of respondents. The profile of respondents matches that of the panel, with a slight under-representation of members of the “political leaders” group and an over-representation of the “social partners” group. The participation of experts from “public institutions and research” increased compared to the previous edition.

Profile of the 115 respondents to the IDEA Consensus of March 2025



Economic Consensus Survey IDEA - February 2025

Welcome to IDEA's Economic Consensus survey.
It takes around 10 minutes to complete.
You have until **6 pm on Wednesday 19th March** to answer it.
Answers are personal, anonymous and processed in accordance with the IDEA Foundation's Personal Data Protection Policy.
Thank you in advance for your time!

1. In your opinion, what is the probability in 2025...

0 being associated with a "very low" probability and 4 with a "very high" probability.

	0	1	2	3	4
	Very low	Rather low	Medium	Rather high	Very high
That world trade is declining					
Of China driving global growth					
Of inflation in the eurozone staying around the 2% target					
That the European Union will come up with a coherent response to Trump's trade war					
That the political situation in the three neighbouring countries will stabilise					

Comment

2. What is the likelihood in the Luxembourgish economy that, in 2025...

0 being associated with a "very low" probability and 4 with a "very high" probability.

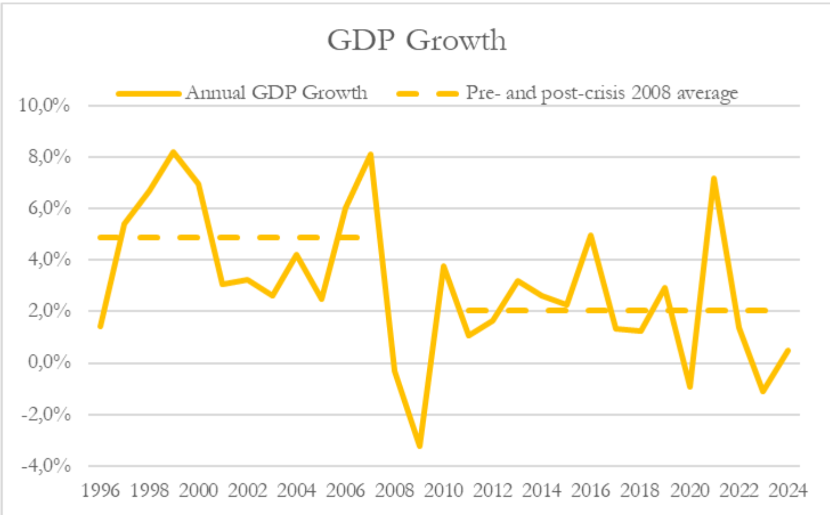
	0	1	2	3	4
	Very low	Rather low	Medium	Rather high	Very high
Employment growth will return to levels above 2%					
Tax revenues will increase less quickly than public spending					
The number of constructions (VEFA) will rise again					
The tax thresholds for teleworking by cross-border commuters (currently 34 days) will approach the current social thresholds (112 days)					
A pension reform will be decided					

Comment

3. Inspired by Oxford Economics, STATEC has envisaged three scenarios for Luxembourg's macroeconomic development in 2025. How likely do you think these three scenarios are?

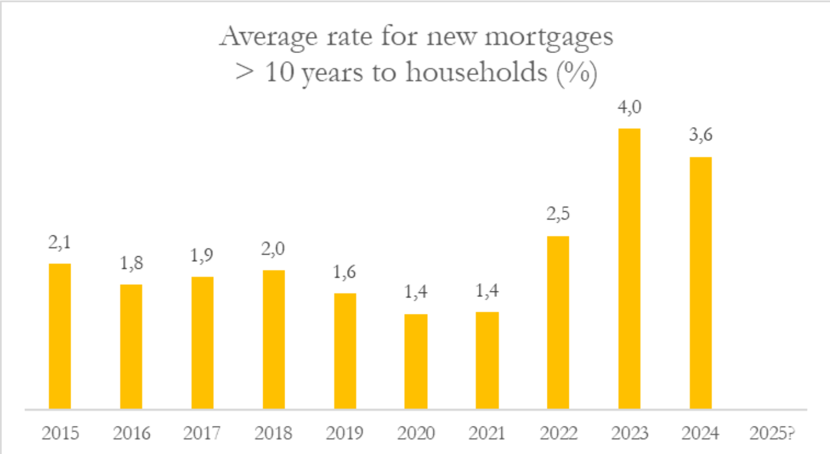
	0 Very low	1 Rather low	2 Medium	3 Rather high	4 Very high
The scenario of inflation at 2.1% and GDP growth of 2.5% in 2025					
Higher interest rates for longer and 0% GDP growth in 2025					
A quicker victory against inflation and GDP growth of 3.6% in 2025					

4. What do you think the growth trend for the Luxembourg economy will be over the next 5 years?



- A return to the 4 to 5% annual growth seen in the pre-crisis period of 2008
- Solid annual growth of around 3%
- 2% annual growth, the average over the last 15 years
- Slowdown to below 1.5% annual growth

5. What do you think will be the average interest rate for new mortgages >10 years in Luxembourg in <u>2025?</u>

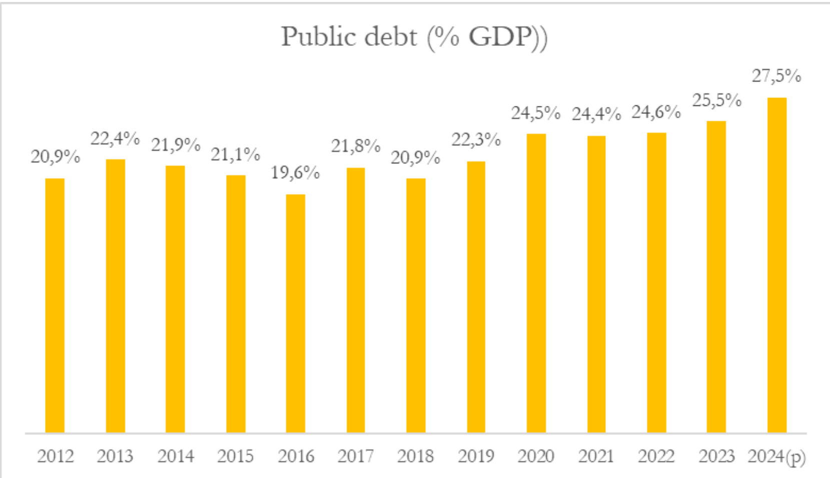


Only a percentage is accepted!

%

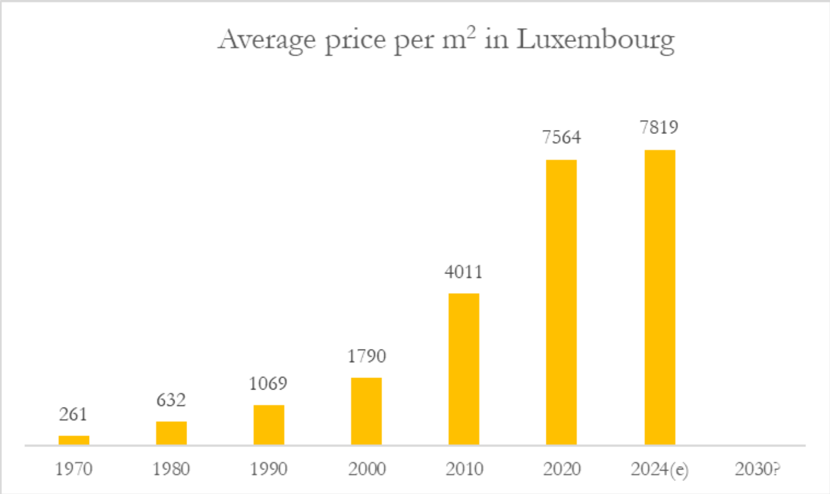
Comment

6. What do you think Luxembourg's public debt level will be in 5 years (2030)?



- Less than 25% of GDP.
- Between 25 and 30% of GDP.
- Between 30 and 35% of GDP.
- Between 35 and 40% of GDP.
- More than 40% of GDP.

7. What do you think the average price of a m2 in Luxembourg will be in 2030, in €?



Only numbers allowed!

	€

Comment

8. In your opinion, what will be the impact of AI in Luxembourg over the next three years on:

	Little impact	Evolution of certain activities	Transformation of most activities	Total revolution
The world of work				
Businesses				
The financial centre				
Public administration				
Competitiveness				
Education and training				
The health sector				
Democracy				

Comment

9. To what extent do you agree or disagree with the following statements?

	Strongly disagree	Somewhat disagree	Neutral	Somewhat agree	Strongly agree
Europe's industrial sovereignty needs to be strengthened, even if it means calling into question certain rules relating to competition and/or free trade					
A European unemployment insurance system must be created					
The achievement of ecological objectives should be postponed over time.					
The total defence budget of the 27 Member States should aim to reach 5% of GDP in the medium term					
The '28th regime'* will be adopted by many companies in Europe over the next few years					
A system needs to be put in place to direct the savings of Europeans towards the major challenges facing Europe					

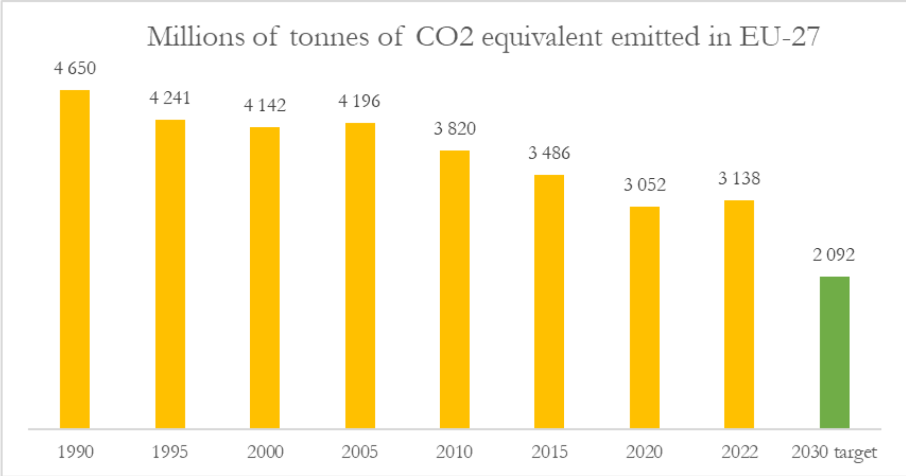
* The '28th regime' would be a single and simple set of rules applicable across the European Union, allowing young innovative companies to expand without having to comply with each Member State's individual regulations.

	Strongly disagree	Somewhat disagree	Neutral	Somewhat agree	Strongly agree
The government must continue to reduce personal taxation.					
The government will have to increase its investments in favor of the ecological transition.					
Residents need to make more changes to their consumption habits for ecological purposes.					
Luxembourg should help finance childcare centers in neighboring border municipalities.					
The pension system needs to be reformed within the next three years.					

Comment

10. According to you, are the current European targets* for reducing greenhouse gas emissions by 2030 achievable?

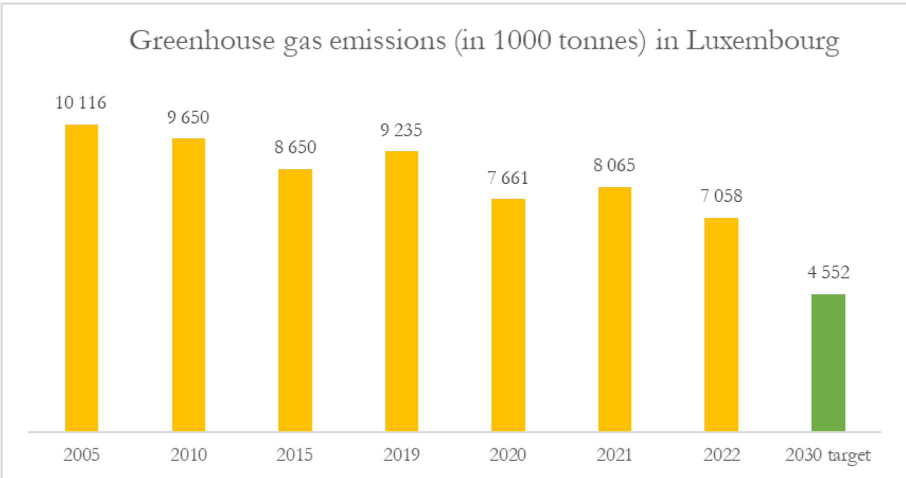
*Reduce greenhouse gas emissions by at least 55% compared to 1990 levels



- Yes.
- No.

11. In your opinion, are Luxembourg's current* greenhouse gas reduction targets for 2030 achievable?

* Reduce greenhouse gas emissions by at least 55% compared to 2005 levels



- Yes.
- No.

Thank you for taking part in the Economic Consensus. We will send you the results shortly.

Do you have any comments on this survey?

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