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Determinants of the profitability of firms in Luxembourg

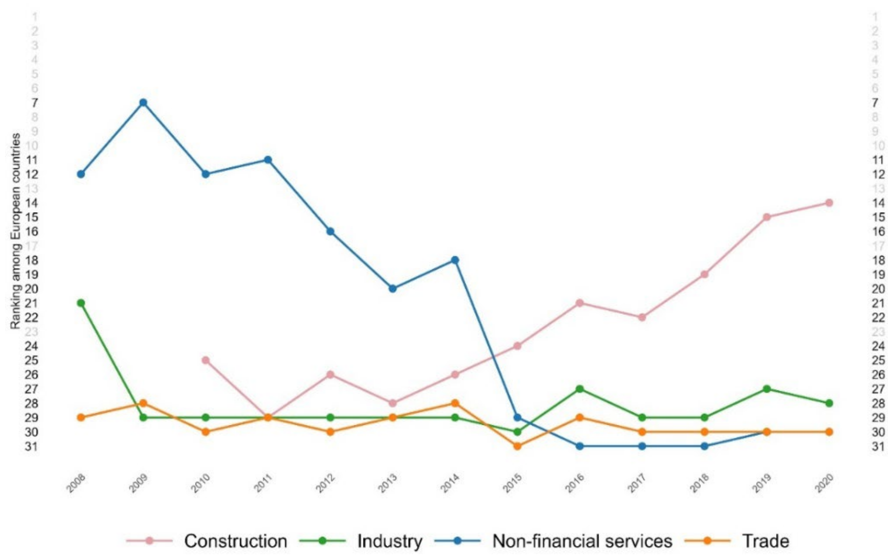
Luxembourg ranks among the least profitable European economies when using the Gross Operating Rate (GOR) as the profitability indicator. This study provides an explanation for this observation. GOR is heavily influenced by the country's large share of *négoce* activities (merchanting, subcontracting, and distributive trade) in turnover. Overall, *négoce* negatively affects GOR across European countries, with a stronger impact for Luxembourg than for others.

In absolute terms, Luxembourg's Gross Operating Surplus has grown strongly—by more than 50% between 2008 and 2020—indicating that the economy does generate substantial profits. The study also highlights that profitability measurement should not rely on a single metric for broad aggregates. In particular, using the margin rate instead of GOR improves Luxembourg's relative positioning.

Luxembourg features a strong operating surplus but ranks low in profitability.

Gross Operating Rate (GOR) is an indicator of firm profitability typically used at the aggregate level. It measures the share of Gross Operating Surplus (GOS) in total sales. GOS is defined as the surplus generated after labour costs are covered. Based on GOR, Luxembourg has consistently ranked among the least profitable economies in Europe, as shown in Figure 1 for main sectors of activity. This finding, reported by STATEC and confirmed by Eurostat data, has raised concerns about the competitiveness and performance of non-financial firms in Luxembourg.

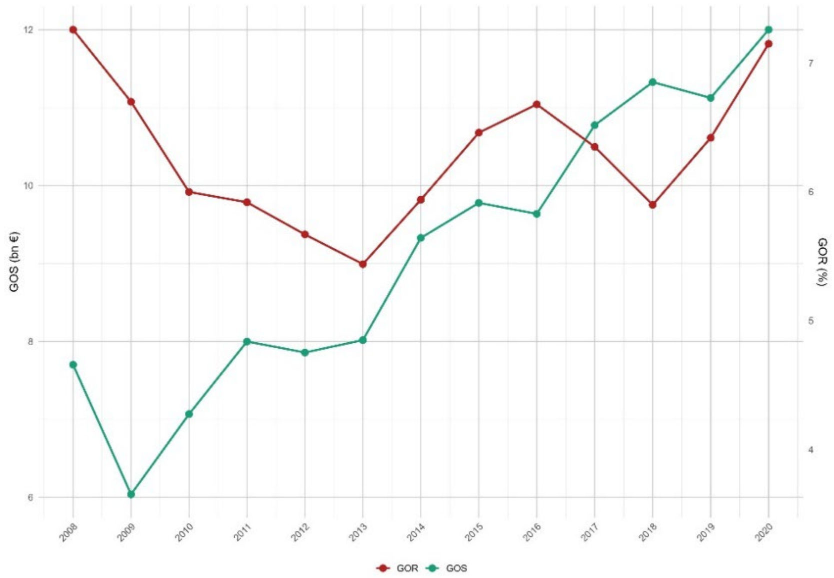
FIGURE 1. LUXEMBOURG'S RANKING IN GROSS OPERATING RATE AMONG EUROPEAN COUNTRIES



Source: EUROSTAT SBS data.

This ranking, however, does not mean that firms in Luxembourg generate low profits in absolute terms. On the contrary, GOS has increased significantly over time, rising by about 55% between 2008 and 2020 (see Figure 2). Over the same period, GOR showed moderate fluctuations, revolving between 5.5% and 7%.

FIGURE 2. EVOLUTION OF GOS AND GOR FOR THE ENTIRE NON-FINANCIAL MARKET ECONOMY IN LUXEMBOURG.

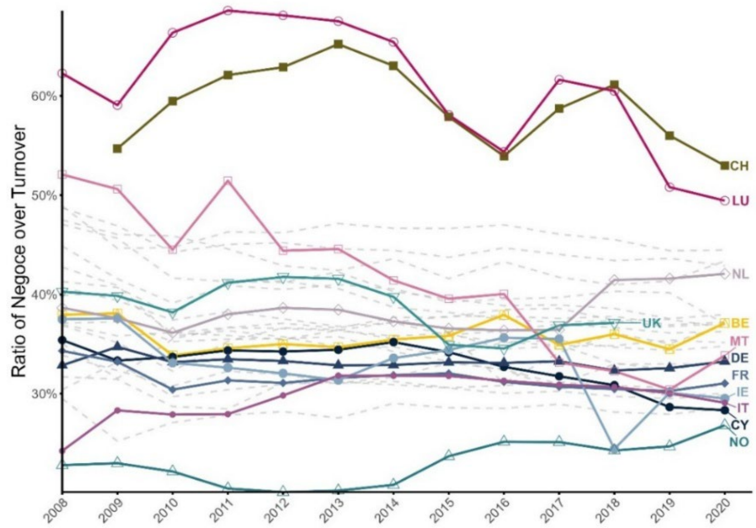


Source: EUROSTAT SBS data.

Share of *négoce* over turnover in Luxembourg is comparatively very high

A comparison across countries shows that Luxembourg has an exceptionally high share of merchanting, subcontracting, and distributive activities in its total turnover. These activities, grouped here under the term négoce, play a central role in the structure of Luxembourg's economy. The data show that Luxembourg's share of négoce in total turnover of firms has consistently ranked highest across European countries (see Figure 3). Although this share declined from over 60 percent in 2008 to around 50 percent in 2020, Luxembourg features the second highest négoce share in Europe in the same year.

FIGURE 3. *NÉGOCE* SHARE IN TURNOVER FOR EU27, UK AND MOST EFTA COUNTRIES (ICELAND, NORWAY AND SWITZERLAND).

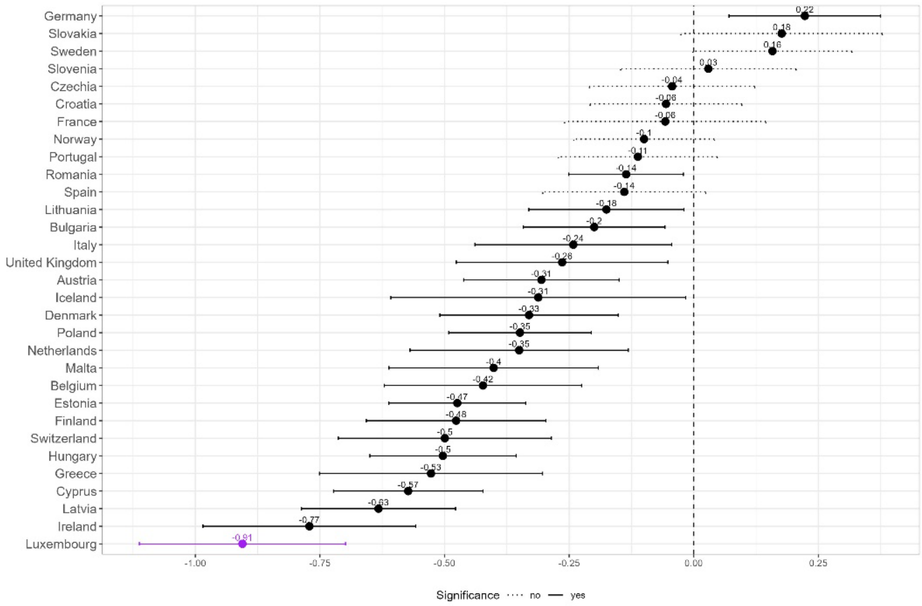


Source: EUROSTAT SBS data.

Low profitability in terms of GOR is explained by the role of *négoce* in firm activities

Evidence across countries shows that higher levels of *négoce* are associated with lower GOR profitability. This relationship is observed across all countries considered, except Germany (see Figure 4). The effect is particularly strong for Luxembourg compared with other European countries.

FIGURE 4. EFFECT ON GOR (IN %) OF A 1 PERCENTAGE POINT INCREASE IN THE SHARE OF *NÉGOCE*, BY COUNTRY.



Note: The horizontal bars indicate the margin of error (95% confidence intervals).

Profitability varies across industries and firm sizes

The analysis based on Luxembourg-specific data shows that the negative relationship between *négoce* and profitability is particularly pronounced in sectors such as wholesale and retail trade, as well as energy supply (electricity and gas), which are characterised by high turnover relative to value added.

In addition, firm size plays a significant role. Large firms, defined as those with 250 or more persons employed, contribute substantially to total operating surplus, but they tend to record lower profitability ratios compared to small firms with fewer than 10 employees. This is largely driven by turnover growing more rapidly than profits for large firms compared to small firms.

Productivity remains a key driver of profitability

In both cross-country and national analyses, labour productivity is consistently and positively associated with profitability. While this does not prove that higher productivity directly causes higher profits, this finding is consistent with theoretical predictions that more productive firms are better able to generate operating surplus. This relationship appears to be stronger in the analysis for Luxembourg compared to the cross-country analysis.

Alternative profitability measure improves Luxembourg's relative position

The study suggests the use of the margin rate as an alternative measure of profitability, as it reflects the distribution of value added between labour compensation and operating surplus to capital. Using the margin rate (GOS/value added) instead of GOR (GOS/turnover) changes the picture of Luxembourg's profitability: the country ranks higher in several industries, and the measure is less influenced by *négoce*. These findings highlight that profitability measurement should not rely on a single metric for broad aggregates.

Pour en savoir plus

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