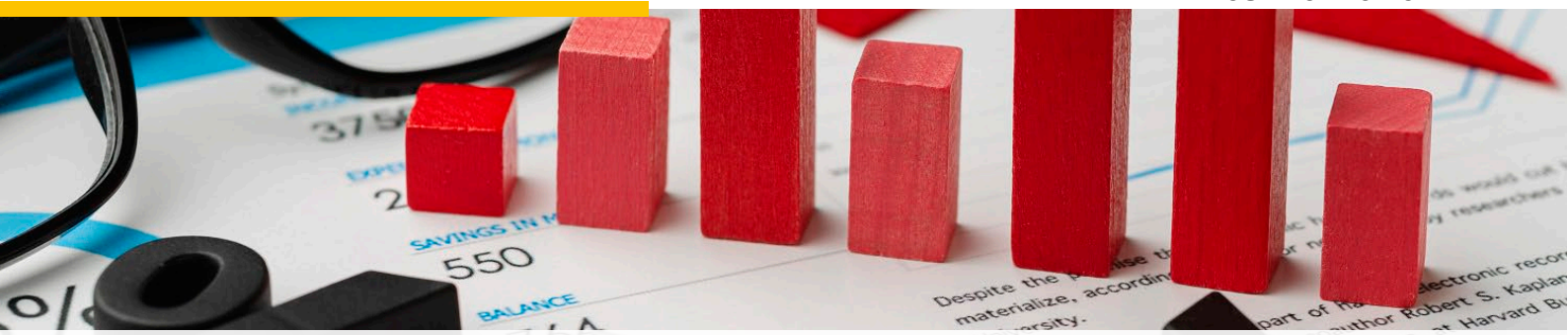


Medium-term projections (2026–2030)

TABLE: SUMMARY OF MACROECONOMIC FORECASTS FOR LUXEMBOURG

	2026	2027	*2028*	2029	2030
GDP (in volume)	1.2	1.9	2.3	2.3	2.4
Total domestic employment	1.7	1.9	2.0	2.1	2.4
Unemployment rate (% of the labour force, ADEM definition)	6.3	6.3	6.1	5.8	5.4
Wage index	2.3	2.1	1.9	2.1	1.5
Average wage cost	3.3	2.4	2.5	2.8	2.2
Greenhouse gas emissions[1]	-2.7	-5.5	-6.4	-4.9	-6.5

Source: STATEC's medium-term projections updated in August 2026)

The Luxembourg economy is expected to record real GDP growth of 1.2 per cent in 2026, before gradually accelerating from 2027 onwards. The recovery is expected to be accompanied by a gradual upturn in employment, with growth exceeding 2 per cent from 2028 onwards. Inflation is expected to remain broadly around 2 per cent in the medium term, although short-term risks now appear to be tilted to the upside against a backdrop of increased tensions in the energy markets. At the end of August, STATEC updated its medium-term macroeconomic projections. [1]

1. International context: forecasts

The international assumptions used for this medium-term forecasting exercise are based on the scenarios from Oxford Economics (OE), received on 15 July 2026. Compared with the forecasts published in June 2026 in the Economic Outlook (NDC 1-2026), the growth assumption for the euro area in 2026 has been revised downwards,

[1] These forecasts are a key element in the process of drawing up the State Budget and have been forwarded to the Ministry of Finance.

from 0.8 per cent to 0.6 per cent, before returning to an average rate of around 1.5 per cent over 2027–2030. These assumptions, finalised prior to the publication of the results for the second quarter for the euro area — where GDP grew by 0.4 per cent quarter-on-quarter, exceeding the consensus — do not yet factor in the resulting growth gains; in the absence of a further surge in energy prices, an upward revision of this forecast for 2026 therefore seems likely. Inflation in the eurozone is expected to be 2.0 per cent in 2026 and 2.1 per cent in 2027.

Globally, OE slightly revised its growth forecasts upwards in July 2026, to 2.5 per cent for global GDP in 2026 and 3.2 per cent in 2027 (+0.1 percentage points in both cases), following a fragile truce between the United States and Iran and a moderate recovery in maritime traffic through the Strait of Hormuz. This context has also led the OECD to revise downwards its oil price assumption; the assumption used for Brent in this exercise is US$83 per barrel in 2026 (compared with US$90 in the NDC 1-2026) and US$67 per barrel in 2027 (compared with US$70 previously). Global demand for services, following modest growth of 1.4 per cent in 2026, is expected to accelerate from 2027 onwards, growing by an average of 2.5 per cent per year for the remainder of the forecast period. In the equity markets, the Euro Stoxx 50 is expected to rise sharply in 2026 (+12.3 per cent), before posting significantly more modest growth for the remainder of the period[2] .

RISKS

Uncertainty surrounding these forecasts remains high and hinges primarily on developments in the Middle East. OE has therefore quantified an alternative adverse scenario, 'Escalation of the war in Iran', in which the Strait of Hormuz would remain closed for an extended period, alternative shipping routes would in turn be threatened, and energy infrastructure would suffer increasing damage. In this scenario, the price of Brent would surge to an average of USD 163 per barrel in the third quarter of 2026[3] , before falling back as the strait gradually reopens in the fourth quarter; gas prices would also spike. Energy shortages would weigh on economic activity (deferral of certain household expenditure, partial shutdown of transport and freight) and strains on non-energy supply chains would exert broader pressures on costs and prices. Investors would demand a higher inflation risk premium, pushing yields on 10-year US Treasury bonds up by 75 basis points above the baseline scenario at the start of the shock, whilst global equity markets would fall by around 20 per cent compared with the baseline scenario in the third quarter. Fiscal support — particularly significant in the United States, with an estimated short-term stimulus effect of 0.5 percentage points of growth — would cushion the shock in the second half of 2026, before giving way to fiscal consolidation. Overall, global GDP growth would slow to 1.9 per cent in 2026 and 1.3 per cent in 2027 (compared with 2.5 per cent and 3.2 per cent in the baseline scenario), with recessions in the United States and other major advanced economies.

In addition to these risks identified by OE, there are factors of uncertainty not quantified in this exercise: droughts in Europe, combined with the El Niño climate phenomenon, pose an upside risk to food prices over the forecast horizon; and the direction of monetary policy will determine the trend in interest rate spreads in advanced economies. These spreads are already high due to increased competition for international financing, high levels of public debt and rising defence spending (particularly in Japan and Germany).

2. Economic outlook for Luxembourg

ECONOMIC ACTIVITY

Recent years have been characterised by a less favourable international environment. The Luxembourg economy has thus felt the impact of tighter financial conditions and d a deterioration in market conditions in some of its key sectors. The correction in the property and construction sectors, as well as the slowdown in activity within financial services, have weighed on sectors that form the core of its economic model and exports. As these headwinds subside, real GDP is expected to return to a gradual growth trajectory, rising from 1.2 per cent in 2026 to 1.9 per cent in 2027 and then to 2.3 per cent in 2028. This trend would reflect the gradual resolution of the imbalances that have built up in recent years and the economy's gradual return to its growth potential.

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[2] This is a technical assumption given the volatility of the stock markets.

[3] This price level (163 USD/barrel) is significantly higher than recent figures: the average price of Brent in the third quarter of 2026 stood at 96 USD/barrel.

Domestic demand would contribute only moderately to this: household consumption and investment in Luxembourg have a high import content, meaning that their net effect on GDP remains limited — even though the measures agreed at the last tripartite meeting and the indexation in June 2026 will support purchasing power, and the stabilisation of interest rates in the medium term would encourage a rebound in investment, particularly in construction. The tax reform planned for 2028 would provide a further boost to household consumption, with growth rising from 2.0 per cent in 2027 to 2.6 per cent in 2028, before falling back to 2.1 per cent in 2029. In the short term (2026–2027), the main driver of the recovery would remain exports of services, particularly financial services. Assumptions of stock market growth (Euro Stoxx 50: +12.3 per cent in 2026) and relatively stable interest rates would support the volume of assets under management, and thus the sector's value added. However, this scenario remains contingent on geopolitical risks not escalating: the alternative scenario described above, 'Escalation of the war in Iran', would lead to a fall in stock markets of nearly 20 per cent, with direct repercussions on financial activity. In the medium term (2028–2030), growth would increasingly be driven by the non-financial private sector, whose growth would gradually return to its historical average (+3.3 per cent per annum).

This recovery would still be built on weakened growth potential — 0.9 per cent in 2025, 1.0 per cent in 2026, compared with a historical average of 2.9 per cent — hampered by the low total factor productivity gains observed over the last decade, compounded by the lack of dynamism in the labour market and low levels of investment in recent years; its recovery would remain limited to 1.7 per cent in 2030. The output gap, which is clearly negative, would thus narrow very gradually, to –2.0 per cent in 2028 and then –0.7 per cent in 2030, without closing completely over the forecast horizon.

LABOUR MARKET

The slowdown in employment in 2023–2024 (+1.9 per cent, then +1.0 per cent) primarily reflected the near-stagnation of economic activity, particularly in construction, financial services and business services; as employment grew faster than GDP at that time, this was accompanied by a decline in apparent labour productivity, as firms largely maintained their workforce levels. The gradual recovery in employment — 1.2 per cent in 2025, 1.7 per cent in 2026, 1.9 per cent in 2027, 2.4 per cent in 2030 — follows that of economic activity with the usual time lag: job creation, still largely driven by the non-market sector in 2025, is expected to be taken over by the market sector as the recovery in economic activity becomes more firmly established, as already indicated by the results for the first half of 2026 (+1.6 per cent and then +1.8 per cent year-on-year). However, the causes of the recent slowdown would only be partially resolved: whilst the stabilisation of interest rates provides relief for the construction and financial services sectors, weak growth potential limits the pace of recruitment, which would remain below its long-term average (3.0 per cent).

This explains why the unemployment rate (ADEM definition), at 6.0 per cent of the labour force in 2025, continues to rise slightly, to 6.3 per cent in 2026 and 2027, despite the acceleration in job creation: these would benefit cross-border workers more than residents over this period, without any significant downward effect on the number of jobseekers. It is only with the strengthening of economic activity and domestic employment that unemployment would fall, to 6.1 per cent in 2028, 5.8 per cent in 2029 and 5.4 per cent in 2030.

INFLATION / WAGES

Inflation (CPI) is projected to stand at 1.8 per cent in 2026, then at 2.1 per cent in 2027. Over the period 2028–2030, it is expected to stabilise at an average of around 2.0 per cent. The decline in 2026 is due to the energy component: the central scenario assumes an average Brent oil price of USD 83 per bar nd factors in the fall in energy prices linked to the Resilienzpak, the tripartite package of measures that came into force in the summer of 2026. Prices for services, on the other hand, would continue to rise at a faster pace (2.2 per cent in 2026), linked in particular to the index-linked pay rise implemented in June 2026. The rise in inflation in 2027 is due to the expiry of the Resilienzpak, whose catch-up effect is estimated at +0.3 percentage points in that year.

The average nominal wage cost is expected to rise under the combined effect of automatic indexation and growth in the basic wage — +3.4 per cent year-on-year in the first quarter of 2026, a rate that is expected to hold broadly steady for the rest of the year. In real terms — deflated by the sliding scale — the increase would remain more moderate.

This scenario remains sensitive to the trajectory of energy prices. Indeed, since the forecast assumptions were finalised, geopolitical tensions in the Middle East have intensified, heightening the upside risks to energy prices. Consequently, despite the downward revision to inflation compared with the NDC 1-2026, the risks surrounding

this projection now appear to be skewed to the upside. The next inflation forecasts, to be published on 4 November, will reassess these risks, which could lead to an upward revision of the inflation scenario.

FUEL SALES / CO_2 EMISSIONS

In Luxembourg, road fuel sales are largely determined by price differentials at the pump compared with neighbouring countries — on which purchases by cross-border commuters and road transit depend — and by the composition of the vehicle fleet. The 8.0 per cent decline in 2025 is part of a downward trend linked to the gradual erosion of this price advantage and the electrification of the vehicle fleet. The temporary stabilisation in 2026 (-0.4 per cent) is expected to result from the 5-centime-per-litre reduction on diesel and petrol introduced by the Resilienzpak from July, which temporarily restores part of the price differential; the expiry of this measure in 2027, combined with the continuation of underlying trends, would lead to a sharp decline in sales for the remainder of the forecast period (-7.0 per cent in 2027, -8.3 per cent in 2028, -5.7 per cent in 2029, -6.8 per cent in 2030).

As fuel sales constitute the main component of national greenhouse gas emissions, these emissions would generally follow the same trajectory from 2026 onwards. Over the entire period, the rate of decline would be significantly faster than the average observed between 2005 and 2025 (-2.6% per year).

Further information

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