CONJONCTURE FLASH

MONTHLY PUBLICATION ON THE STATE OF LUXEMBOURG'S ECONOMY – **DECEMBER 2025**

Économie et prix

A POSITIVE THIRD QUARTER FOR GDP

GDP results for the 3rd quarter, with major support from financial activities, confirm the recovery trend, although it remains unbalanced across the various sectors. Investment was largely boosted this quarter by satellite acquisitions.

Luxembourg's GDP in volume grew by 1.1% over one quarter in Q3 2025 (+2.7% over one year).[1]. Four consecutive quarters of growth have thus followed on from Q4 2024, a pattern not seen since 2019.

Value added across all sectors rose by 1.5% over the quarter in Q3 2025. Financial and insurance activities (+2.4% over the quarter) made the biggest contribution to this increase (0.6 percentage points), followed by services in the 'Trade; transport; accommodation and food' sector as well as predominantly non-market activities ('Public administration, education and health').

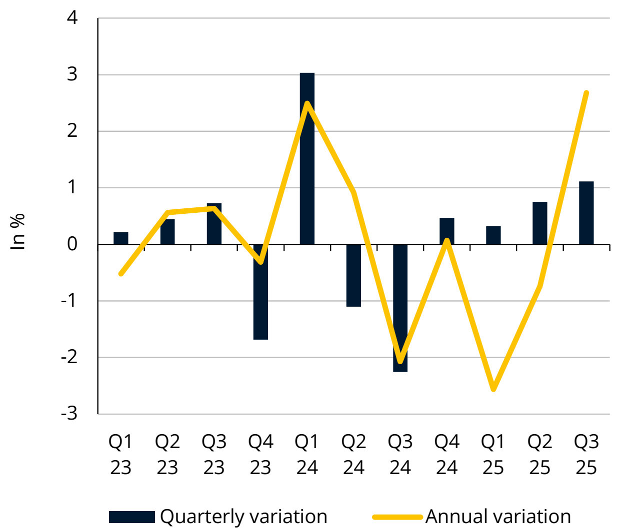
The financial sector was buoyed by dynamic stock markets, asset issuance by collective investment schemes and new lending (see November's Conjoncture flash). In the 3rd quarter, value added in volume rose by 7.1% over the quarter for auxiliary activities and by 2.9% for insurance services (see below), while it fell slightly for banks (-0.5%). However, their value added at current prices rose by 4.1% over the quarter, meaning that the volume of assets grew less strongly than prices (asset valuations, commissions and interest rates).

On the other hand, some sectors recorded a decline, with the most negative contributions coming from business services and construction[2]. The ongoing recovery remains unbalanced, with the results of the various sectors currently very inconsistent from one quarter to the next.

Investment in space

Investment spending (gross fixed capital formation) rose particularly sharply in the 3rd quarter (+12% quarter-on-quarter, after a fall of almost 3% in the 2nd quarter), driven mainly by satellite acquisitions (with a corresponding marked rise in imports of goods, neutralising its impact on GDP). Investment in metal products and machinery (excluding transport equipment) also made a significant contribution to overall growth.

EVOLUTION OF REAL GDP IN LUXEMBOURG



Source: STATEC (National accounts – seasonally adjusted data)

Following a slight drop over the previous two quarters (-0.2% on each), household consumption recovered (+1.2% over the quarter), driven in particular by spending on restaurant services, capital goods (furniture, domestic appliances), transport services and clothing. In line with the trend seen in previous quarters, public consumption expenditure remained dynamic (+1.3% over the quarter).

Trade in services also made a positive contribution to GDP growth, in both financial and non-financial services.

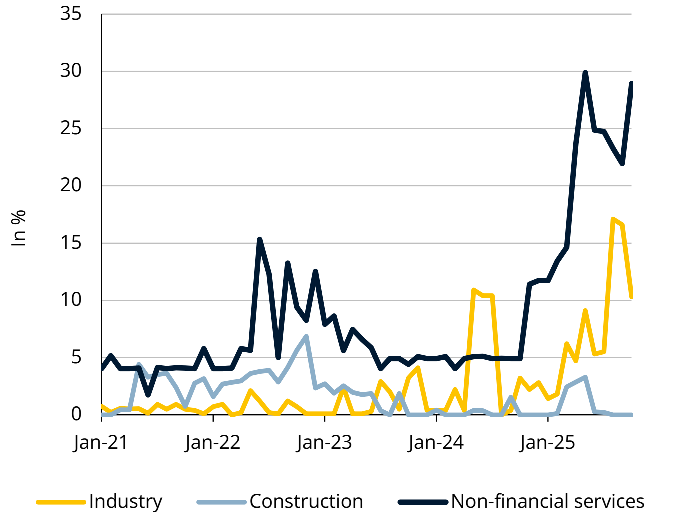
Finally, it should be noted that GDP growth in the eurozone for the 3rd quarter, initially estimated at +0.2% over one quarter (see November's Conjoncture Flash), has been revised slightly upwards to +0.3%. The results of the eurozone's main heavyweights have not changed, and it is primarily the smaller Member States that account for this revision, with good results that were not yet known at the time of the previous estimate or due to revisions (Austria now shows +0.4%, compared with -0.1% previously).

[1] It should be noted that GDP growth for the 1st quarter has been revised downwards (+0.3% over one quarter, compared with +0.7% previously), but that growth for the 2nd quarter has been revised upwards (+0.8% over one quarter, compared with +0.6% previously).

[2] This fall in value added in construction (-1.4% over the quarter) was mainly due to the results of companies active in property development. By contrast, the other construction sectors (building and civil engineering, specialist works) saw their value added and output increase in the 3rd quarter.

Activity

SHARE OF COMPANIES CITING THE TRADE WAR AS A FACTOR LIMITING ACTIVITY IN LUXEMBOURG



Source: STATEC (business surveys)

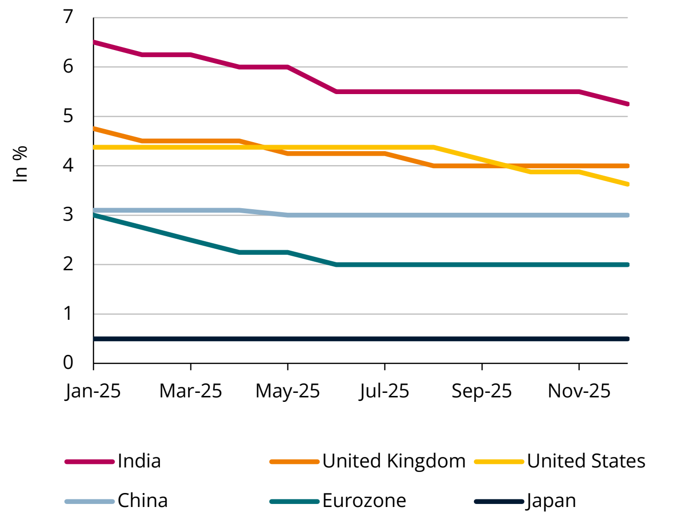
Worrying trade tensions

In the monthly business surveys, a number of factors likely to weigh on activity can be cited (insufficient demand, shortage of labour, etc.), including one on international trade tensions. The latter was introduced into the STATEC surveys at the beginning of 2020 (together with another regarding Covid), when significant trade frictions between the United States and China were already present (this was during D. Trump's first term as President).

The proportion of companies citing the trade war as a limiting factor has risen sharply in 2025, not only for industry, but even more so for services (which actually seems more surprising). The main sectors concerned are postal and courier services, head offices and management consultancy, legal and accounting services, business administration and support, publishing, air transport and accommodation. However, it is difficult to interpret how and on what scale these service companies would be affected. Is this a reflection of the general uncertainty surrounding the impact of trade tensions, or is it linked to other factors?

Financial environment

KEY INTEREST RATES



Sources: Central banks

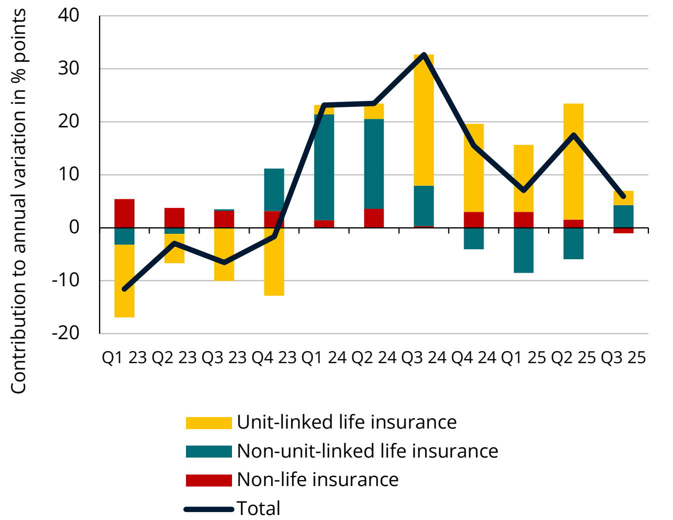
Monetary easing in the United States and India

After a pause in the 1st half of 2025, the US Federal Reserve cut its key rates for the fourth time by 25 basis points (bps) in December. Economic activity growing at a moderate pace, coupled with a labour market showing signs of cooling, explain this decision. The ECB, for its part, maintained the status quo in the 2nd half of the year following a 100 b.p. fall in the 1st semester, a decision guided by inflation in the eurozone moving closer to its 2% target. The emergence of inflationary pressures in the UK in recent months has prompted the Bank of England to halt the monetary loosening it began at the start of the year, which brought key rates to 4%.

In Asia, the Bank of Japan kept its key rates unchanged at 0.5%, but hinted at an increase at its next meeting due to accelerating inflation. Among the emerging powers, the People's Bank of China left its key interest rates virtually unchanged on the back of economic growth proceeding at the expected pace. The Reserve Bank of India cut rates four times, on a background of near-target inflation, to continue supporting economic activity.

Financial sector

INSURANCE PREMIUMS IN LUXEMBOURG



Sources: CAA, STATEC

Two years of strong growth for life insurance

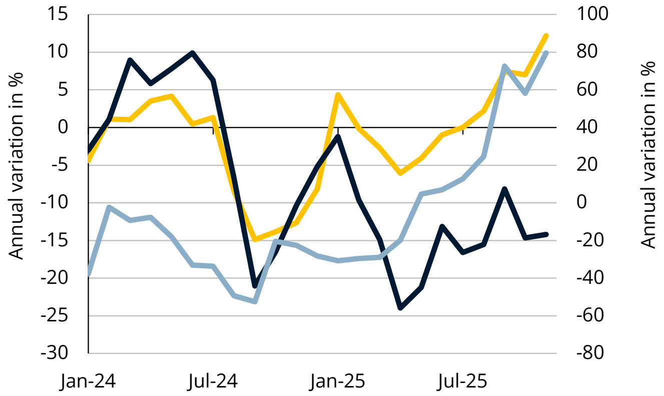
Following significant growth of 23% in 2024, premiums collected by insurance companies between January and September 2025 rose sharply once again (+10% year-on-year).

This increase was driven by unit-linked life insurance products (up 37% year-on-year), which benefited from buoyant stock markets. Guaranteed-return life insurance products (excluding unit-linked products) surged in the 1st half of 2024, but are now becoming less attractive as interest rates fall. They are down by 16% year-on-year, although they did rise slightly in the 3rd quarter (+5% quarter-on-quarter). Non-life insurance grew by 3% over the year.

In terms of value added, insurance services were the main drivers of growth in the financial sector in the 3rd quarter, with an increase in volume of 17% year-on-year (+2.9% quarter-on-quarter). Insurance companies also increased their workforce by 4.3% over the year (around 200 people), accounting for 38% of new jobs in the financial sector.

Inflation

OIL PRICES



Sources: STATEC, Macrobond (monthly averages)
* The "Brent crack spread 3:2:1" is the price differential between a barrel of Brent crude oil and its refined products. It measures the profitability of refining crude oil into these refined products. The 3:2:1 ratio assumes that three barrels of crude oil will produce two barrels of petrol and one barrel of diesel.

Higher refining margins on petroleum products

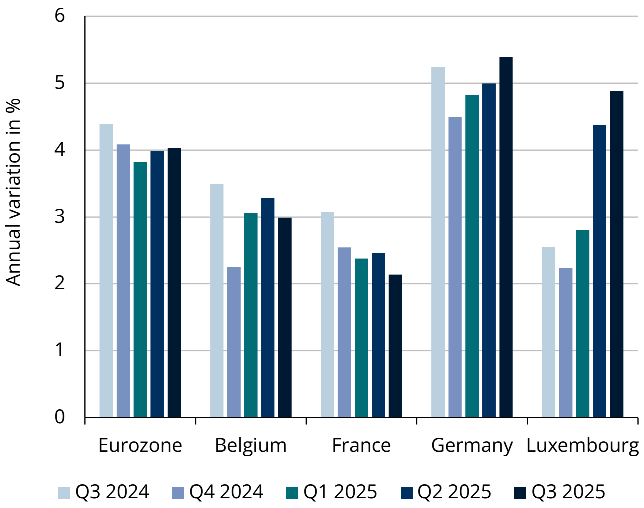
The price of Brent crude fell back to USD 64/barrel at the end of November/beginning of December, having peaked at USD 80/barrel in June amid geopolitical tensions in the Near and Middle East. Although the price of Brent crude oil expressed in euros fell by around 20% year-on-year in November, inflation in petroleum products remains high in Luxembourg (+12.2% year-on-year), contributing 0.6 percentage point to overall inflation (3.0% in November).

This resilience is due in particular to significantly higher refining margins than one year ago. Prices for refined products - in particular diesel and petrol - remain underpinned by high demand and limited supply in Europe, while crude oil prices, affected by oversupply and macroeconomic and geopolitical concerns, remain relatively low. This configuration increases the gap between the price of crude oil and the price of refined products, and boosts the profitability of refineries, which limits the transmission of the drop in crude oil prices to prices at the pump.

Since mid-November, refining margins, just like fuel prices in Luxembourg, have been falling again.

Wages

COMPENSATION PER EMPLOYEE



Sources: Eurostat, STATEC

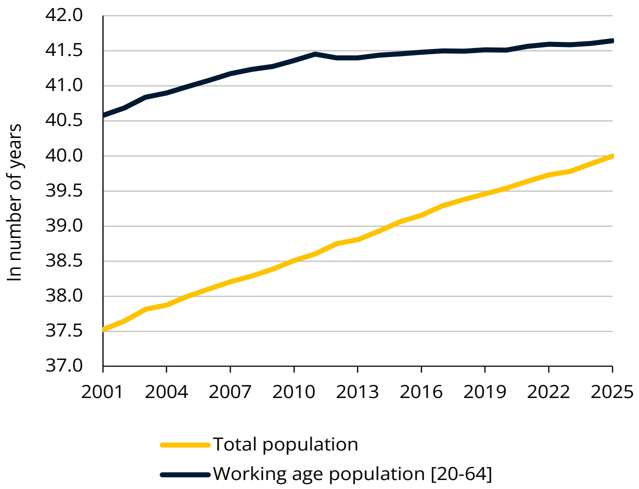
Acceleration in labour costs in Germany and Luxembourg, slowdown in Belgium and France

Compensation per employee (CPE) rose by 4% year-on-year in the eurozone in the 3rd quarter, as in the previous quarter. Wage inflation is thus proving to be more persistent than anticipated, notably by the ECB, which was forecasting a fairly substantial slowdown for the summer. This persistence is linked to contrasting trends among the region's heavyweights. Indeed, CPE is slowing in France (falling to 2.1% year-on-year, from 2.5% in Q2), while it is still accelerating in Germany (to 5.4%, from 5.0%).

In Luxembourg, CPE rose by 4.9% year-on-year in the 3rd quarter, after 4.4% in the 2nd and 2.8% in the 1st. This further acceleration is mainly due to the growth of the sliding scale. While May's indexation only affected 2 months of the 2nd quarter (contributing 1.7 percentage point to the annual rise), it affected the whole of the 3rd quarter (contributing 2.5 percentage points). At sectoral level, there has been a major acceleration in specialised, scientific and technical activities, which contributed +0.6 percentage point in the 3rd quarter, compared with -0.2 percentage point in the 2nd (which was impacted by negative base effects linked to high bonuses in Q2 2024). Conversely, there has been a slowdown in the health and social work sector (contribution of +0.5 compared with +0.9), as in the 2nd quarter CPE was boosted in particular by bonuses provided for in the collective agreement for the aids and care sector.

Labour market

CHANGE IN AVERAGE AGE IN LUXEMBOURG



Source: STATEC

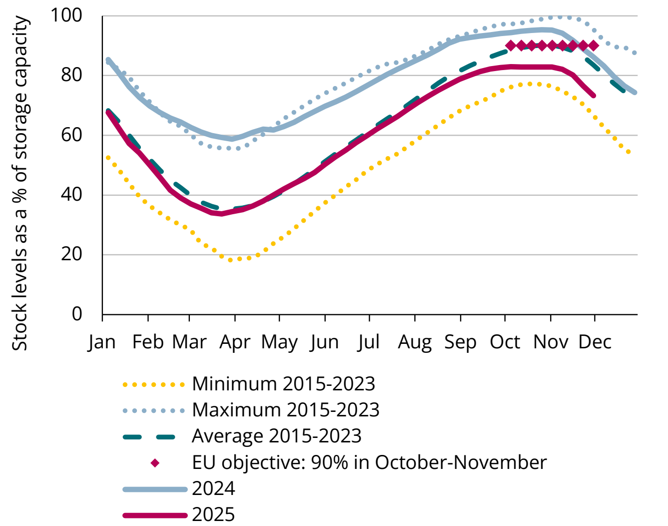
Ageing of the working population

The average age of the Grand Duchy's population has risen from 38 in 2005 to 40 in 2025. However, the effects of ageing on the working-age population have been less marked since 2011. The average age of this population is rising at an ever slower rate (from 41.0 to 41.6 between 2005 and 2025), with most of the baby boomers (born between 1945 and 1960) having already left this age group since 2010. Another contributing factor is the high level of immigration over the last 15 years, with new arrivals being relatively young (the average age of immigrants is around 30).

However, while the labour force is ageing, the employment rate for the over-55s has risen considerably (from 45.5% in March 2005 to 55.4% in March 2025, according to ADEM and IGSS administrative data). In March 2025, the IGSS counted almost 45,000 residents aged over 55 in employment in Luxembourg, i.e. 15.8% of total resident employment. Over the last ten years, employment in this age group has been much more dynamic, averaging an increase of +5.3% per year, compared with +1.6% for younger people, contributing 0.5 percentage point to growth in resident employment (out of an average of 2.1% for 2016-2025).

Energy

GAS STOCK LEVELS IN THE EUROPEAN UNION



Source: Macrobond (weekly data)

Gas stock levels in Europe lower than in previous years

Since the start of the energy crisis, the level of gas storage in Europe has come under increasing scrutiny. By 2022, the European Union (EU) had set a target of filling stocks by at least 90% by 1 November each year. However, this target was relaxed during the summer, so that it could be reached at any time in October or November, with a view to reducing the pressure on gas prices. Spot prices have fallen over the course of the year and are currently at their lowest level since spring 2024. Despite this easing, the threshold has not been reached and storage levels are now trending downwards with the heating season under way.

However, this situation does not appear to be particularly worrying with regard to security of supply. Gas consumption in Europe has fallen structurally, by around 20% between 2021 and 2024. The EU is also relying increasingly on liquefied natural gas (LNG), which accounted for 45% of its gas imports in the first three quarters of the year.

Dashboard

	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Average over the last three months	Same period previous year
											Annual variations in %, except where otherwise indicated
Activity											
Industrial output per working day, in volume	-3.3	-0.1	-2.7	-1.2	-3.4	9.9	-2.2	2.3	...	2.8	-3.6
Construction output per working day, in volume	-0.6	0.5	-6.2	0.7	-0.7	6.4	-0.6	1.5	...	1.9	-0.9
Turnover by volume of total retail trade	-4.2	1.5	4.8	-3.9	2.0	-0.6	0.7	0.2	...	0.2	3.4
Prices, wages											
Consumer price index (NCPI)	1.3	1.7	2.0	2.2	2.3	2.4	2.6	2.7	3.0	2.8	1.0
Underlying inflation	1.5	2.0	2.3	2.3	2.4	2.4	2.4	2.5	2.6	2.5	1.9
Oil product index	-2.7	-6.1	-4.1	-1.0	0.0	2.2	7.4	7.0	12.2	8.8	-13.8
Industrial producer price index	3.5	5.0	4.3	3.3	1.1	-0.9	-1.8	...	...	-0.5	-4.0
Construction price index[1]	1.2	1.5	1.5	1.5	...	...	...	...	...	1.5	1.7
Average wage bill, per person (National accounts)	2.8	4.4	4.4	4.4	4.9	4.9	4.9	...	...	4.9	2.6
Foreign trade											
Exports of goods (volume)	-5.0	-4.2	-3.0	-2.6	7.5	-0.1	4.3	2.6	...	2.4	-5.3
Imports of goods (volume)	11.4	-1.7	0.6	-3.2	25.5	14.2	4.4	32.9	...	17.7	1.1
Employment, unemployment											
Domestic number of employees	0.7	0.7	0.9	0.9	1.2	1.3	1.4	1.4	1.2	1.3	0.8
National employment	0.6	0.7	1.1	1.0	1.2	1.2	1.4	1.4	1.2	1.3	0.6
Unemployment rate (% of working population, seas. adj.)	5.9	6.0	6.0	5.9	5.9	5.9	6.1	5.9	...	6.1	5.9

Source: STATEC. seasonally adjusted, quarterly national accounts
[1]Estimates based on half-yearly data

Indicators

	% change on previous quarter					
	2024 Q2	**2024 Q3**	**2024 Q4**	**2025 Q1**	**2025 Q2**	**2025 Q3**
Eurozone - Real GDP growth (European Commission)	0.2	0.4	0.4	0.6	0.1	0.3
Luxembourg - Real GDP growth (STATEC)	-1.1	-2.3	0.5	0.3	0.8	1.1
	Annual variation in %					
	2021	**2022**	**2023**	**2024**	**Forecast 2025**	**Forecast 2026**
Luxembourg - Real GDP growth (STATEC)	6.9	-1.1	0.1	0.4	1.0	1.7

GDP at current prices (2024)

EUR **86 180** million

Minimum monthly wage (01/05/2025)

EUR **2703.74**

Next scheduled wage indexation:
Q3 2026

Consumer price index (11/2025)

1,035.62

Index half-yearly average:
1,036.14

Current account balance (Q2 2025)

EUR **725** million

Resident population (01/01/2025)

682 000

STATEC

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