CONJONCTURE FLASH

Economy and prices

MONTHLY PUBLICATION ON THE STATE OF LUXEMBOURG'S ECONOMY – **JANUARY 2026**

RECORD TRADE SURPLUS FOR CHINA IN 2025

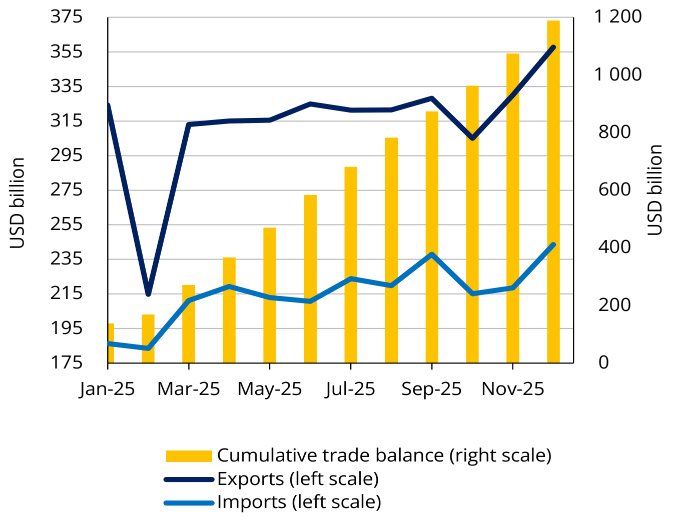
Despite growing geopolitical and trade tensions, China realised a record surplus on its goods trade balance for 2025. This can be explained by a combination of factors: diversification of outlets for Chinese exports, lacklustre imports due to sluggish domestic demand and circumvention of US customs duties by third countries.

Contrary to all expectations, 2025 was the year of a historic surplus in China's trade in goods: +USD 1,188 bn in 2025, up from USD 992 bn in 2024. Exports rose by 5.5% while imports stagnated over the past year due to sluggish domestic demand.[1] The Middle Kingdom achieved this performance despite the sharp rise in tariffs applied by the United States, its main export partner.[2] This rise in the price of Chinese products on American soil has contributed to the 22% contraction in China's trade balance with the United States, from USD 360 billion in 2024 to USD 280 billion in 2025.

Armed with the lessons of the trade war in 2018 during President Trump's first term in office, China has used a number of strategies to succeed in generating this historic trade surplus. Firstly, it has diversified its export outlets to offset the impact of higher US tariffs. Between 2024 and 2025, its trade surplus in goods with Europe, Latin America and Asia rose by 26%, 29% and 39% respectively.

Asia has played a dual role in China's strategy: as an additional outlet and as a bypass country. China has taken advantage of sustained economic growth and a large middle class in India, Indonesia and Malaysia to sell off some of its surplus production. In order to circumvent US tariffs, China has also had certain goods produced and transited through third countries that benefit from lower tariffs than China.[3] Vietnam[4] and Thailand have seen their imports from China jump by more than 20% (between 2024 and 2025), reaching almost USD 200 bn and USD 103 bn respectively in 2025. At the same time, exports to the United States rose by USD 46 billion for Vietnam and USD 20 billion for Thailand.[5]

CHINA'S TRADE BALANCE IN GOODS



Source: Chinese customs
Note: The cumulative trade balance is the sum of the monthly trade balances.

Luxembourg not very dependent on Chinese imports except for certain specific products

Although it occupies a secondary place among Luxembourg's main suppliers of goods (Belgium, France, Germany and the United States), China is one of the top 10 countries from which Luxembourg imports, accounting for around 3% of its imports (in value). However, it represents 20% of Luxembourg's imports of electrical, audio and video equipment over the first 10 months of 2025, compared with 3% over the same period in 2024. The Grand Duchy has a large trade deficit with China, importing goods worth EUR 922 million and exporting EUR 346 million, mainly in valves and copper foil.

[1] The lack of dynamism in Chinese imports since 2022 in part explains China's growing trade surplus. Between 2019 and 2022, Chinese imports grew by 30% while contracting by 4.5% between 2022 and 2025.

[2] Effective tariffs on Chinese goods rose from an average of 19.8% in 2024 to 47.5% in November 2025, while average US effective tariffs on the rest of the world stand at 18.7%.

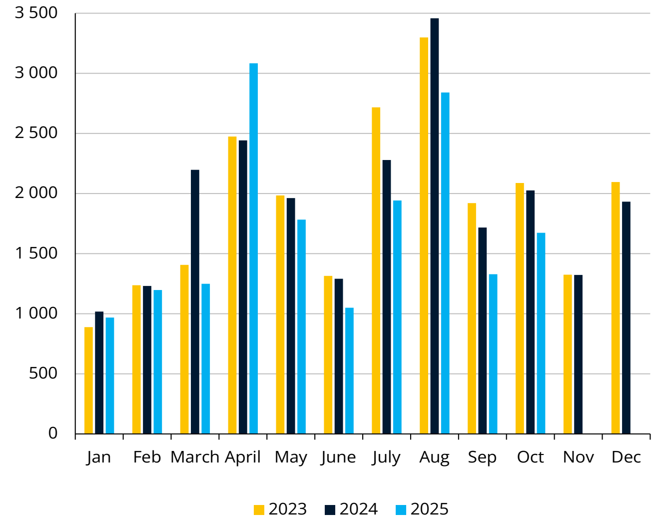
[3] In particular, Chinese companies have built factories in Vietnam to cope with potential increases in customs duties.

[4] Aware of this possibility of transshipment, the United States has introduced a clause allowing it to impose an additional 40% customs duty on goods transshipped via Vietnam.

[5] The increase is calculated over the first 10 months of 2025 compared with the first 10 months of 2024.

Tourism

NUMBER OF VISITORS FROM LUXEMBOURG TO THE UNITED STATES



Source: International Trade Administration

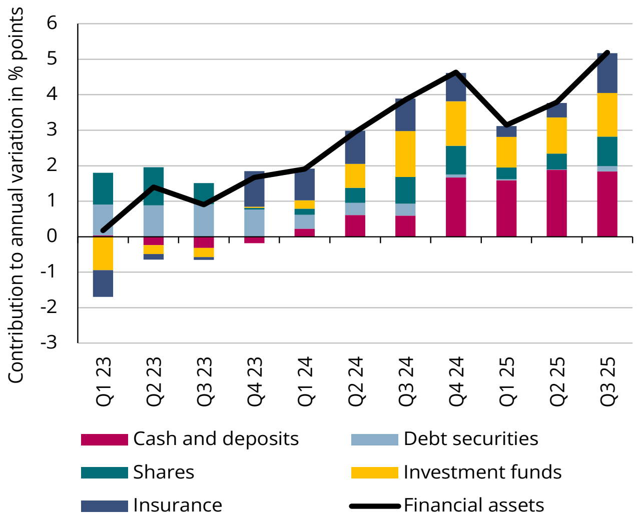
United States now less attractive

According to official figures from the US government, international tourist arrivals in the United States fell by just over 5% in 2025 (based on the first 10 months of the year, representing a loss of over 3 million visitors). This contrasts with the upward trend seen in most regions of the world, with global tourism growing by around 4% in 2025 (according to UN Tourism estimates).

This fall in international tourism to the United States is mainly due to lower arrivals from Canada (-22%), but also from Germany (-12%), France (-7%), India (-5%) and South Korea (-6%), to name only the most significant (out of 230 countries or territories of origin surveyed, 160 showed a decline). This downturn was offset by an increase in arrivals from Mexico (+10%, especially in early 2025), Argentina (+16%), Japan (+6%, with Hawaii remaining a key destination for Japanese tourists), Italy (+6%), Israel (+15%) and the United Kingdom (+1%). For Europe, the trends are mixed, with increases for most Eastern European countries and a decline for the Western part. For travellers from Luxembourg, the fall was close to 13%.

Financial sector

FINANCIAL ASSETS OF HOUSEHOLDS IN LUXEMBOURG



Sources: STATEC, BCL

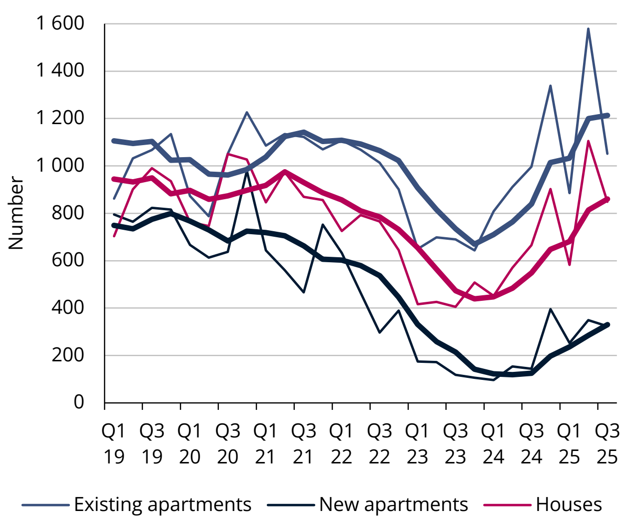
Household financial assets are becoming more diversified

Household financial assets in Luxembourg grew by 5.2% over one year in Q3 2025 (+0.7% over one quarter). Households mainly increased bank deposits (+4.4%) and investments in equities (+3.8% in transactions, -0.5% in valuation) and life insurance (+7.0% in transactions, +4.1% in valuation). On the investment fund side, valuations rose sharply for shares in non-money market funds (+27%), while investment volumes fell sharply (-17% in transactions).

Bank deposits account for 40% of household financial assets in Luxembourg, compared with 29% on average in the eurozone. Among the main investments, equities account for 25% of assets in Luxembourg (26% in the eurozone), investment funds for 13% (12% in the eurozone) and life insurance for 10% (compared with 14% in the eurozone). While deposits account for a relatively larger proportion of household portfolios in Luxembourg, their share is falling steadily (except during crises). Thirty years ago, deposits accounted for half of financial assets.

Real estate

HOUSING TRANSACTIONS



Sources: STATEC, Housing Observatory (data smoothed over 4 quarters in bold)

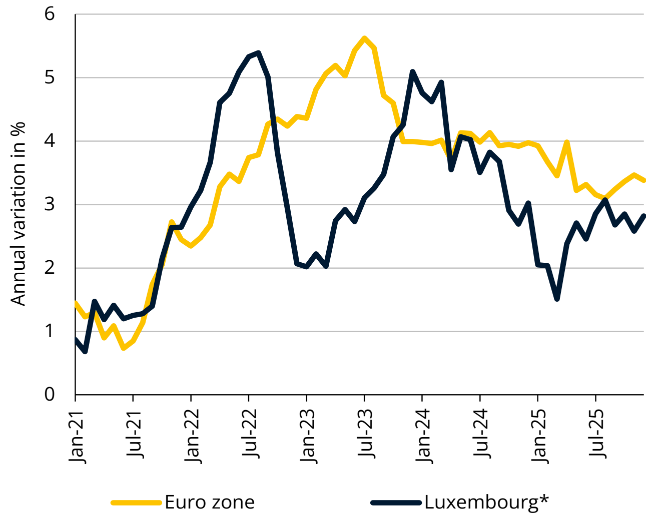
Mixed recovery

In the third quarter of 2025, house prices fell by 3.1% over the quarter, in contrast to the sharp rise the previous quarter (+4.4%), which can be explained by the expiry of the temporary support measures in late June. Despite these fluctuations, the underlying trend in property prices is one of slight growth, with prices up by 1.2% over the year.

The number of property transactions also fell sharply in the third quarter, after a second quarter boosted by the approaching expiry of the measures. A similar, albeit slightly less pronounced, effect could already be seen at the turn of 2024-25, when certain measures were due to expire (although they were ultimately extended). Over one year, however, housing transactions were clearly on the up in the third quarter (+23%). The extent to which transactions have recovered from their collapse in 2022-2023 varies greatly depending on the type of property. Transactions in existing flats and houses have returned to pre-crisis levels, while those in new flats are still down by half. Sales of flats under construction currently account for only around 20% of flats sold, compared with around 40% before the crisis. This could be linked to the higher average prices for new flats (in a crisis caused by a fall in households' ability to buy property) and to the perceived risk surrounding the completion of construction work.

Inflation

SERVICES INFLATION



Sources: Eurostat, STATEC
* N.B. 2023 was marked by the introduction of (partially) free school canteens and daycare centres from the start of the 2022/23 academic year.

Inflation in services still lower than in the eurozone

In December 2025, services remained the main driver of inflation, both in the eurozone and in Luxembourg. Respectively, they contributed 1.5 percentage points to overall inflation of 1.9% in the eurozone, and 1.3 percentage points to overall inflation of 3.1% in Luxembourg. This is more than energy (0.9 percentage points), for which prices rose sharply in January 2025 following the partial lifting of public measures (see November Flash). Over 2025 as a whole, inflation in services was 2.5% in the Grand Duchy, one of the lowest rates (along with France) of all the eurozone countries (3.4% on average for the eurozone).

In the eurozone, service prices have been boosted by a catch-up in wages, particularly in Central and Eastern Europe, which had been particularly affected by the surge in energy prices in 2022. In 2025, 70% of the 96 services monitored both in Luxembourg and in the eurozone contributed more to inflation in the eurozone than in the Grand Duchy. The biggest differences are observed for restaurant and accommodation services, insurance services and rents.

Labour market

EMPLOYMENT AND LABOUR FORCE TRENDS

Sources: IGSS, ADEM, STATEC (seasonally adjusted data)

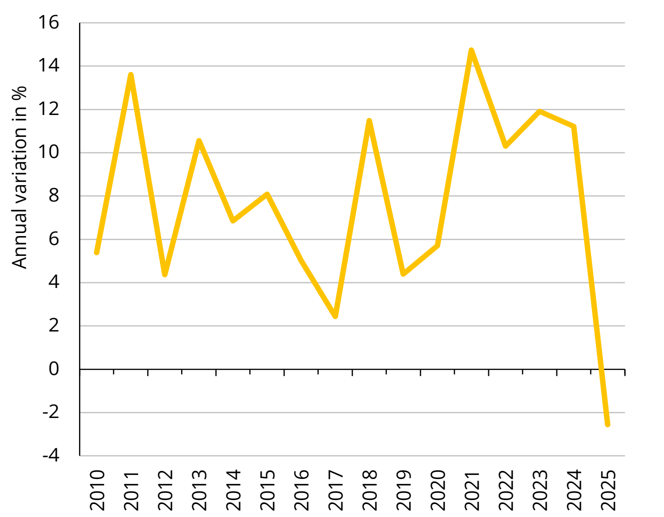
Labour market regains appeal

In Luxembourg, employment accelerated in the third quarter of 2025 and is expected to maintain this pace (at +0.5% over a quarter according to preliminary data) at the end of last year. At the same time as this renewed momentum, unemployment rose again, reaching 6.2% of the labour force in November and December, compared with 5.9% at the end of the summer.

The boost to employment and the opportunities it brings should attract more people to the labour market. The acceleration in the labour force, outstripping that of the population, as well as the rebound in cross-border employment point in this direction. The latter was more dynamic than resident employment over the second half of the year (60% of net job creation for cross-border commuters, compared with only 35% over the first half of 2025), reflecting a recovery in the private sector. However, German cross-border employment appears to be still falling (the latest data available is from October), pointing to structural rather than cyclical reasons. On the resident side, the acceleration in the labour force is due to the arrival of migrants and the increased participation of previously inactive people (who go straight into employment or register with ADEM).

Public finances

HOUSEHOLD INCOME TAX



Sources: Direct tax authorities, STATEC

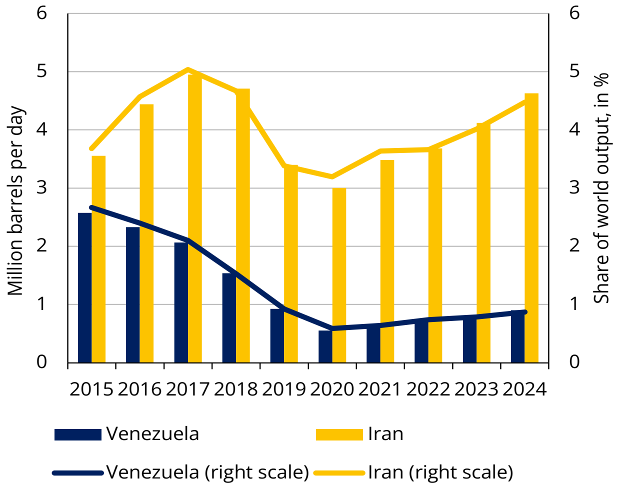
Lower tax on household income

Taxes collected on household income in 2025 fell for the first time since 2009 (-2.6%), after 15 years of increases (+8.4% per year on average). Withholding taxes on wages and salaries slowed (+1.7% year-on-year, compared with +10% per annum on average between 2018 and 2024) as a result of the slowdown in employment and the tax relief provided by the "Entlaaschtungs-Pak". This tax package, adopted on 11 December 2024, includes the adjustment of the personal income tax scale by 2.5 index brackets, tax relief for tax class 1a and a tax exemption for income at the level of the unskilled minimum social wage.

The fall in interest rates and bond yields has also reduced the tax collected on capital income (-24%, after rising 33% in 2024) and on interest (-11%), although the total withholding tax on the latter was still nine times higher in 2025 than in 2022.

Energy

OIL OUTPUT IN VENEZUELA AND IRAN



Source: U.S. Energy information administration

Oil markets under renewed pressure

The turbulent start of the year interrupted the general downward trend in oil prices, at least temporarily. The US intervention in Venezuela and the threat of further intervention in Iran, the countries with the world's largest and third largest oil reserves respectively, have pushed the price of Brent crude up from USD 60/barrel to around USD 65/barrel.

The immediate effects linked to Venezuela on the world market should remain marginal. As a result of the sanctions imposed in the past, the country now accounts for less than 1% of world output. Although the US President has expressed a desire to see multinational energy companies invest in Venezuela's oil infrastructure, the companies remain reluctant, describing the country as "uninvestable" for now. Iran, which is also subject to sanctions, accounts for almost 5% of world production and exports almost 90% to China. An intervention in the Islamic republic could also disrupt flows through the Strait of Hormuz, through which around 20% of the world's oil passes. If these risks do not materialise, the International Energy Agency expects the world market to be oversupplied again in 2026, as it was in 2025.

Dashboard

	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-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	-0.1	-2.7	-1.2	-3.4	9.9	-1.8	2.3	...	...	2.9	-3.6
Construction output per working day, in volume	0.5	-6.2	0.7	-0.7	6.4	-0.5	1.5	...	...	1.9	-0.9
Turnover by volume of total retail trade	1.4	4.8	-3.9	9.9	6.1	0.6	0.2	-0.7	...	0.0	3.1
Prices, wages											
Consumer price index (NCPI)	1.7	2.0	2.2	2.3	2.4	2.6	2.7	3.0	3.1	3.0	0.9
Underlying inflation	2.0	2.3	2.3	2.4	2.4	2.4	2.5	2.6	2.9	2.7	1.6
Oil product index	-6.1	-4.1	-1.0	0.0	2.2	7.4	7.0	12.2	5.7	8.3	-11.6
Industrial producer price index	5.0	4.3	3.3	1.1	-0.9	-1.8	-2.3	-2.4	...	-2.2	-1.0
Construction price index[1]	1.5	1.5	1.5	1.8	1.8	1.8	2.0	2.0	2.0	2.0	0.8
Average wage bill, per person (National accounts)	4.4	4.4	4.4	4.9	4.9	4.9	...	...	...	4.9	2.6
Foreign trade											
Exports of goods (volume)	-3.9	-3.0	-2.5	7.3	0.8	5.1	2.6	-1.6	...	2.0	-2.8
Imports of goods (volume)	-1.9	0.3	-3.3	25.8	14.3	5.8	32.7	10.5	...	16.7	3.7
Employment, unemployment											
Domestic number of employees	0.7	1.0	0.9	1.2	1.3	1.4	1.5	1.5	1.8	1.6	0.7
National employment	0.7	1.1	1.0	1.2	1.3	1.5	1.5	1.4	1.5	1.5	0.6
Unemployment rate (% of labour force, seas. adj.)	6.0	6.0	5.9	5.9	5.9	6.1	6.0	6.2	6.2	6.1	5.9

Source: STATEC
[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 %					
	2022	**2023**	**2024**	**Forecast 2025**	**Forecast 2026**	**Forecast 2027**
Luxembourg - Real GDP growth (STATEC)	-1.1	0.1	0.4	1.0	1.7	2.1

GDP at current prices (2024)

EUR **86 180** million

Minimum monthly wage (01/05/2025)

EUR **2 703.74**

Next scheduled wage indexation: **Q3 2026**

Consumer price index (12/2025)

1 036.77

Index half-yearly average: **1 036.63**

Current account balance (Q3 2025)

EUR **1 802** million

Resident population (01/01/2025)

682 000

STATEC

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