

CONTRASTING SITUATION IN CONSTRUCTION

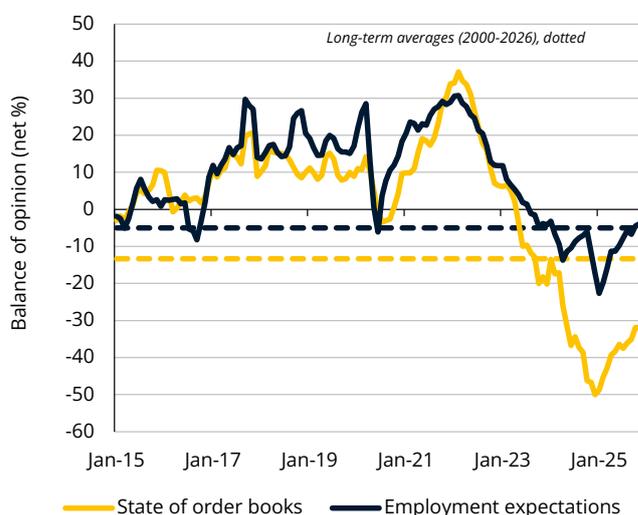
The sentiment among construction companies in Luxembourg is improving and there are positive signs emerging from the labour market. However, activity continues to stagnate at a low level and investment is showing contrasting trends (better for housing, worse for other buildings and structures).

Business confidence in the construction sector, as measured by business surveys, improved gradually over the course of 2025 but lost momentum at the turn of the year. This indicator is compiled on the basis of opinions on the state of order books and employment expectations. After rising sharply in the first half of 2025, employment prospects have fluctuated around their long-term average since the summer. In fact, declines in workforce numbers became less and less significant as the year progressed and, in the fourth quarter of 2025, employment in the construction sector even increased by 0.1% over one quarter (according to provisional data), a first in almost three years. A sharp rise in the number of hours worked by temporary staff in the construction sector was already observed in the third quarter (+9.4% over one quarter). Job vacancies have also been on the rise for the past six months, up by around a third between June and December 2025 (seasonally adjusted data). However, the number of construction jobseekers registered with ADEM has remained relatively constant in recent months and potential job losses due to bankruptcies rose in late 2025.

The improved employment situation goes hand in hand with an improvement in companies' perceptions of the state of their order books. These have risen gradually over the past year but remain below the (high) level that prevailed before the crisis in the sector and the long-term average. In terms of building permits, the trends are less clear-cut. Authorised useful floor area, particularly for residential buildings, has tended to stagnate at a low level for over a year. The third quarter of 2025 marked a significant increase but, given the high volatility of the series, it seems premature to deduce a general upward trend. In addition, investment¹ in construction projects was also fairly stable in 2024 and early 2025, before declining in the second and third quarters of 2025. However, this movement masks divergent developments in different areas. Although investment in housing continued to fall until late 2024, it has since recovered slightly and in the third quarter was 3% higher than a year before. Conversely, investment in non-residential buildings and civil engineering structures, which had recovered somewhat since 2024, shows a decline in the second and third quarters of 2025.

¹ The term investment here refers to gross fixed capital formation, which does not include transactions of existing buildings. Investment data is still provisional and subject to revision.

BUSINESS SURVEYS IN CONSTRUCTION



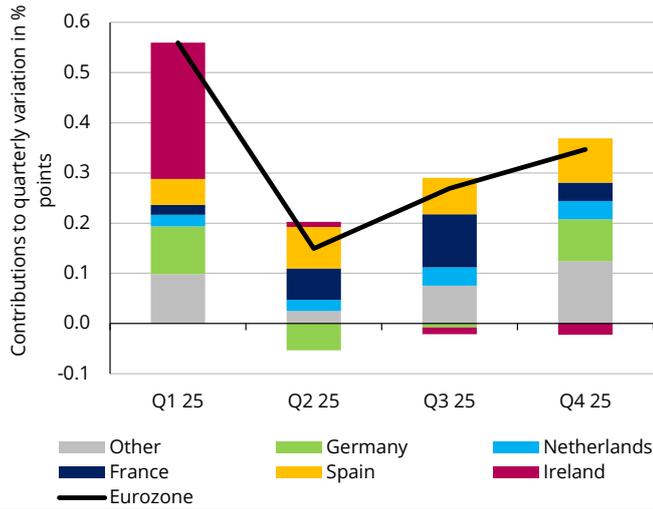
Sources: STATEC, European Commission (data smoothed over three months)

Gross value added in construction stabilised at a low level (around 30% below average pre-crisis levels observed between 2015 and 2021). Thus, although the situation in the construction industry is no longer deteriorating, the recovery has barely begun.

Internationally, construction sector trends are mixed. In Germany, the neighbouring country whose construction activity has been hardest hit by the crisis, business confidence is improving, while value added and investment in housing continue to weaken slightly. In France, on the other hand, there has been a recovery in housing investment and, more recently, in activity, although business confidence is still lacklustre.

International 1/2

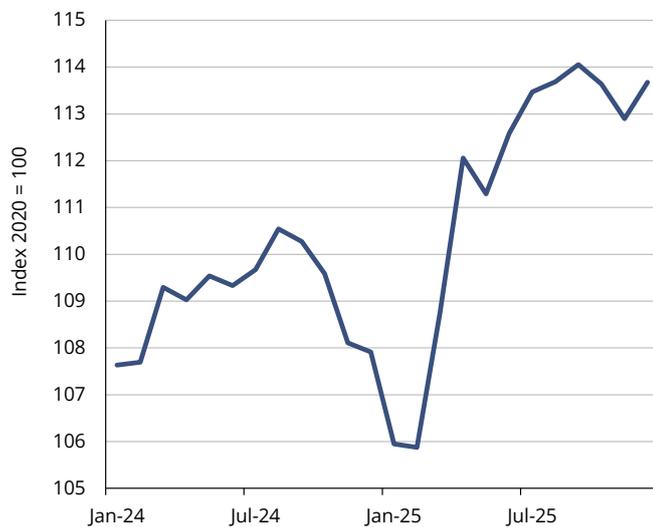
GDP IN VOLUME IN THE EUROZONE



Sources: Eurostat, STATEC calculations

International 2/2

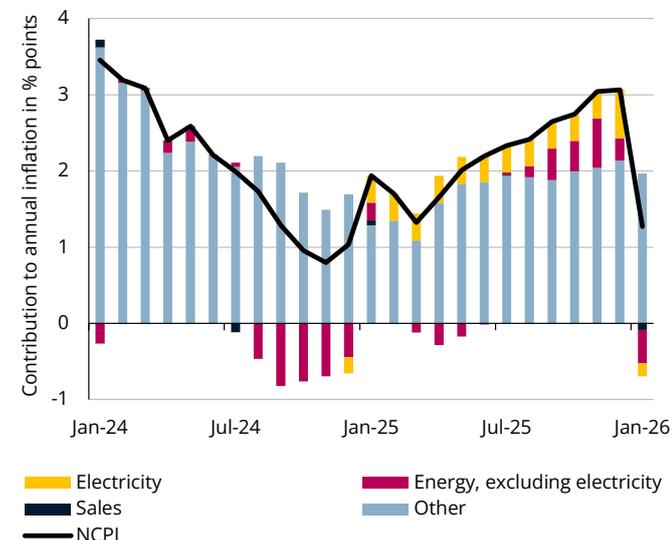
EURO REAL EFFECTIVE EXCHANGE RATE



Source: Macrobond

Inflation

ANNUAL INFLATION RATE AND CONTRIBUTIONS



Source: STATEC

Activity in the eurozone held up well in the 4th quarter

Eurozone GDP rose by 0.3% over one quarter in Q4 2025. This brings last year's growth to 1.5% (up from +0.5% in 2023 and +0.8% in 2024).

The last quarter of 2025 was marked by a rebound in German activity, driven mainly by consumer spending, both private and public. Exports, on the other hand, fell back, apparently due to the rise in US tariffs, the appreciation of the euro and increased competition from China. Spain once again made a significant contribution to the eurozone results, maintaining a high rate of expansion at the end of the year (+0.8% over a quarter) thanks to rising household consumption and investment. The French result shows a slowdown (+0.2% over a quarter, after +0.5% in the third quarter), mainly due to a strongly negative contribution from changes in inventories. Domestic demand slowed only slightly and foreign trade was even more positive than the previous quarter. The Netherlands (+0.5% over one quarter) and Italy (+0.3%) each made a contribution equivalent to that of France in late 2025.

The euro continues to strengthen

In 2025, the euro's real effective exchange rate appreciated by 5.3%, taking it to its highest level in more than a decade. This rebound was mainly due to the depreciation of the dollar, with the EUR/USD exchange rate reaching its highest level since 2021 (rising by 15% over 2025 alone). The uncertainty surrounding President Trump's economic policy, the trade war and the independence of the Federal Reserve have led to a growing indifference to the dollar.

The single European currency also appreciated sharply against its other main partner countries outside the eurozone: +3.6% against the pound sterling, +10% against the Chinese yuan and +14% against the Japanese yen. An uncertain political climate and doubts about the credibility of the UK budget fuelled sterling's fall. China's continued policy of a weak yuan and Japan's low key interest rates help explain these trends. An improved growth outlook for the eurozone, coupled with a planned increase in military spending, have also added to the euro's appeal.

Although the appreciation in the euro has raised the price of exported goods, it has also eased the cost of imported goods, particularly energy, thanks to the dollar's sharp depreciation.

Inflation falls significantly in January

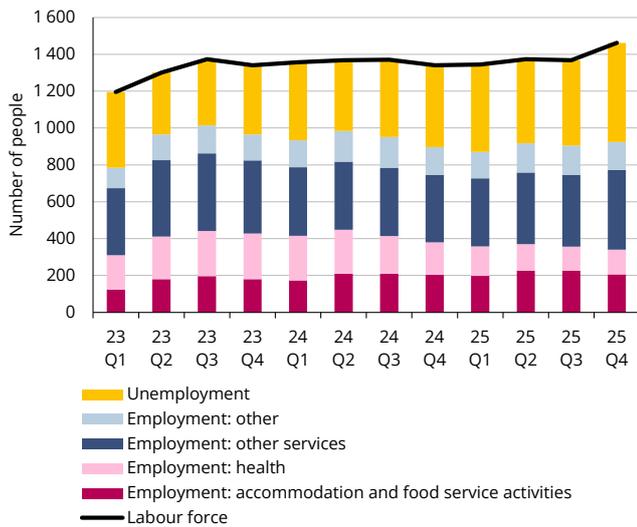
Luxembourg recorded a much sharper slowdown in inflation than the eurozone at the turn of 2025/2026 (from 3.1% in December to 1.3% in January in Luxembourg, and from 2.0% to 1.7% in the eurozone). While, at European level, this downturn is mainly due to falling energy prices, a number of other factors are also play in the Grand Duchy, notably trends in electricity tariffs and retail sales.

As announced, electricity prices fell substantially in January (-10.5% over one month and one year), thanks to the government's contribution to electricity grid usage charges. Retail sales also exerted downward pressure on general price levels, albeit with limited impact due to the relatively small weighting of the concerned goods in the index. Markdowns on some goods traditionally on sale in January were larger than usual, particularly on women's shoes (-22% year-on-year), baby clothes (-9%) and bicycles (-7%).

On the services side, few categories saw price rises in January (apart from museums, swimming pool passes, fitness subscriptions and driving lessons), whereas traditionally many price adjustments are made at the start of the year.

Labour market

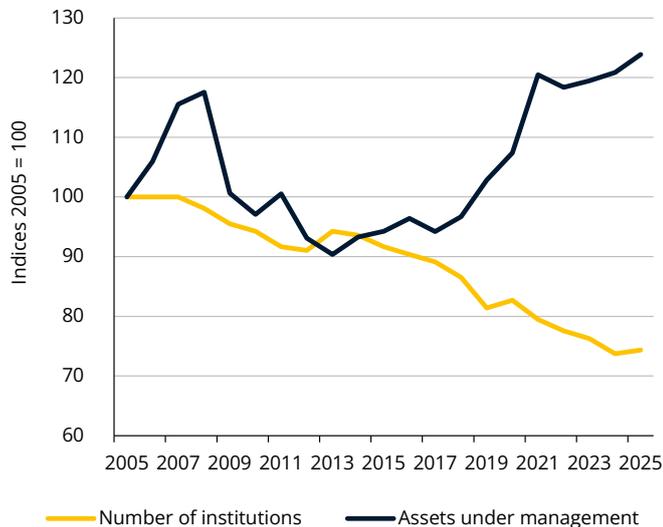
UKRAINIAN REFUGEES: EVOLUTION OF THE LABOUR FORCE



Sources: IGSS, ADEM, STATEC

Financial sector 1/2

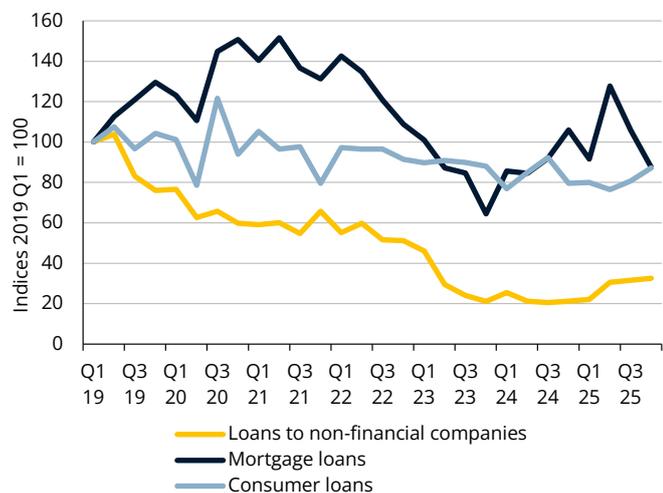
CREDIT INSTITUTIONS IN LUXEMBOURG



Source: BCL (year-end data)

Financial sector 2/2

NEW LOANS GRANTED BY LUXEMBOURG BANKS



Source: BCL (seasonally adjusted data)

Increase in the number of Ukrainian refugees in the labour force

In January 2026, more than 1,500 Ukrainian beneficiaries of temporary protection (BTP) were active on Luxembourg's labour market. This corresponds to an activity rate of around 50% for Ukrainian refugees aged between 15 and 64 (compared with around 75% for residents overall). The number of active people was relatively stable for two years before rising again since last autumn, in parallel with a further increase in the number of Ukrainian refugees of working age (+250 between August 2025 and January 2026, including 170 men, potentially following Ukraine's lifting of travel restrictions for men aged between 18 and 22). This recent rise has gone hand in hand with an increase in the number of Ukrainian refugees registered with ADEM, although accounting for only 4% of the total - and significant - increase in the number of job seekers registered since last August. The unemployment rate for Ukrainian BTPs was around 35% in 2025.

Some 900 Ukrainian refugees were in employment in January 2026 (representing 0.2% of total employment), 60% of whom were women. Almost a quarter of Ukrainian employees in Luxembourg work in the hotel and catering sector, 16% in health services and 44% in other types of services.

Banking sector continues to consolidate

By the end of 2025, 116 credit institutions were active in Luxembourg, including 18 from Germany, 15 from China, 13 from France, nine from Switzerland and seven from Luxembourg. The number of banks has fallen by 26% in 20 years, meaning that there are currently 40 fewer entities than in 2005. Half of the closures were German branches and, to a lesser extent, Italian and Swiss establishments, while there were eleven more Chinese entities and five more from Spain.

By contrast, assets in credit institutions have grown by 24% in 20 years, totalling almost EUR 200 billion. The phases of strong growth took place during periods of low interest rates and rising stock market valuations (between 2004 and 2008 and again between 2016 and 2022). Bank staff numbers have also risen by 15% in 20 years, despite the drop in bank numbers. Growth in banking assets accelerated slightly in 2025 (to +2.5%) thanks to falling interest rates and the upturn in demand for loans (see below), while workforce numbers stagnated (+0.4%). The jobs most in demand at the moment are IT development, technical support and information system administration. There are also a growing number of offers in credit analysis and banking risks, financial engineering and customer management.

Credit demand boosted by better prospects and lower interest rates

In the final quarter of 2025, new consumer and business loans continued to rise (+8% and +3% respectively over the quarter), while mortgages, both fixed-rate and variable-rate, fell (-17% overall). However, housing loans had surged in Q4 2024 and Q2 2025, taking advantage of the final moments of certain support measures for housing in Luxembourg (most of which expired in June). The amount of new housing loans and consumer credit has returned to levels observed in mid-2023. Rates were then on the rise, 4.6% for consumer loans and 4.1% for mortgages, compared with 4.2% and 3.3% respectively at present. According to the bank lending survey, demand for household loans is currently underpinned by a more positive outlook for the housing market and consumer spending on durable goods.

Although lending to businesses picked up in 2025, it remains at a very low level (-25% compared to early 2022 before the rise in interest rates, -70% compared to early 2019). Nevertheless, demand for business loans has been boosted by lower interest rates (2.8% in late 2025 compared with 3.2% in mid-2023) and should improve in the first quarter of 2026.

Energy

PRICE OF EU ETS CERTIFICATES



Source: Macrobond (weekly data)

Uncertainties about the future of the EU's emissions trading scheme

The European Union Emissions Trading Scheme (EU ETS), set up in 2005 to reduce greenhouse gas emissions from industry and energy production, is now coming under increasing pressure.

Certificate prices have risen sharply on the back of the post-COVID economic rebound and the energy crisis. After this surge, they stabilised at a high level until mid-2025. Prices rose again in anticipation of the reduction in free allocations planned in 2026, exceeding 90 EUR/t CO₂ by mid-January 2026. This increase prompted renewed calls for system reform from a number of political and industrial leaders, citing the need to preserve the competitiveness of European companies in the face of international competition.

However, the European Commission had already planned to review the scheme in the third quarter of this year. Given the demands for greater system flexibility, this prospect contributed to a rapid fall in trading prices, which plummeted by more than 20% in the space of a month in mid-February.

Dashboard

Activity	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	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	-2.7	-1.2	-3.4	9.9	-2.0	9.4	-0.8	...	...	2.3	-1.2
Construction output per working day, in volume	-6.2	0.7	-0.7	6.4	-0.2	2.1	4.3	...	...	2.1	-2.3
Turnover by volume of total retail trade	4.8	-3.9	9.9	3.5	5.5	-2.6	-0.7	-0.2	...	-1.2	2.4
Prices, wages											
Consumer price index (NCPI)	2.0	2.2	2.3	2.4	2.6	2.7	3.0	3.1	1.3	2.5	1.3
Underlying inflation	2.3	2.4	2.5	2.4	2.4	2.5	2.6	2.9	1.9	2.5	1.6
Oil product index	-4.1	-1.0	0.0	2.2	7.5	7.0	12.2	5.7	-9.2	2.3	-5.6
Industrial producer price index	3.8	2.9	1.2	-0.8	-1.5	-2.6	-2.7	-2.9	...	-2.8	-0.4
Construction price index ¹	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	4.9	4.9	4.9	...	...	...	...	4.9	2.6
Foreign trade											
Exports of goods (volume)	-3.0	-2.5	7.3	0.8	5.1	2.6	-1.6	...	...	2.0	-2.8
Imports of goods (volume)	0.3	-3.3	25.8	14.3	5.8	32.7	10.5	...	...	16.7	3.7
Employment, unemployment											
Domestic number of employees	1.0	0.9	1.2	1.3	1.4	1.5	1.5	1.5	1.4	1.5	0.7
National employment	1.1	1.0	1.2	1.3	1.5	1.6	1.4	1.5	1.2	1.4	0.7
Unemployment rate (% of labour force, seas. adj.)	6.0	5.9	5.9	5.9	6.1	6.0	6.2	6.2	6.3	6.2	5.9

Source: STATEC. ¹ Estimates based on half-yearly data

Indicators

	% change on previous quarter					
	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Eurozone - Real GDP growth (European Commission)	0.4	0.4	0.6	0.1	0.3	0.3
Luxembourg - Real GDP growth (STATEC)	-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:
Q2 2026

Consumer price index
(01/2026)



1 022.30

Index half-yearly average:
1 035.63

Current account
balance
(Q3 2025)



EUR 1 802 million

Resident population
(01/01/2025)



682 000

STATEC

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