CONJONCTURE FLASH

Economy and prices

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

EUROPE IN A BETTER POSITION TO FACE THE NEW ENERGY SHOCK

The war in Iran has disrupted energy markets and caused global oil prices to soar. This situation is reminiscent of that in 2022, but the European context differs significantly from the one at the time. At this stage, it is primarily Asia that remains most exposed to the consequences of the conflict. In Europe, the effects are mainly concentrated on oil. However, should the conflict drag on, repercussions on gas and other commodities could also emerge.

For Europe, the current situation differs markedly from the 2022 energy crisis. Even before the outbreak of the war in Ukraine, the global economy was already marked by the post-Covid recovery and significant strains on supply chains. Unlike Europe's heavy reliance on Russian gas prior to the war in Ukraine, the continent imports only a limited proportion of its gas from the Middle East (4% in 2025), which is less than what it continues to import from Russia (12%). The reduction in Russian supplies has been made possible by a drop in consumption of around 20% as well as an increased use of liquefied natural gas (LNG), mainly from the United States. According to the *Institute for Energy Economics and Financial Analysis*, Europe's LNG import capacity has increased by 40% since the end of 2021.

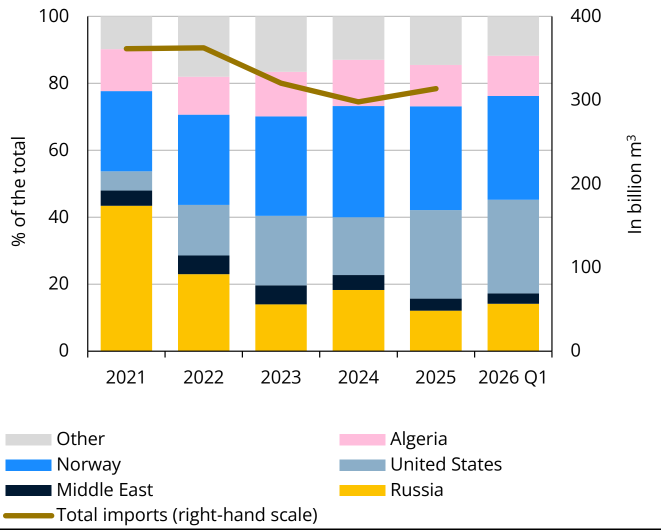
Disruptions to LNG exports from the Middle East, which account for around 20% of global LNG trade, are nevertheless putting indirect pressure on the European market. Europe must presently compete more fiercely with Asian countries to secure the volumes still available on the global market. This situation warrants particular attention, especially as European gas stocks remain relatively low at the end of winter. Rebuilding them could prove costly and complex if tensions on the global gas market were to persist.

The electricity generation sector is also in a more favourable position than in 2022. At that time, difficulties with nuclear and hydroelectric capacity, particularly in France, had reduced electricity generation and led to increased reliance on gas, even as access to it was particularly difficult in Europe. Since then, renewable electricity generation capacity in Europe has increased by more than 30% and, in 2025, accounted for nearly half of the continent's electricity production.

In Luxembourg, the impact is currently concentrated on petroleum products

In Luxembourg, the effects of the conflict in the Middle East are currently being felt mainly through rising prices for petroleum products. In April 2026, prices for diesel, petrol and heating oil had risen by 41%, 19% and 69% respectively compared with their

SOURCES OF EUROPE'S GAS IMPORTS



Source: Bruegel

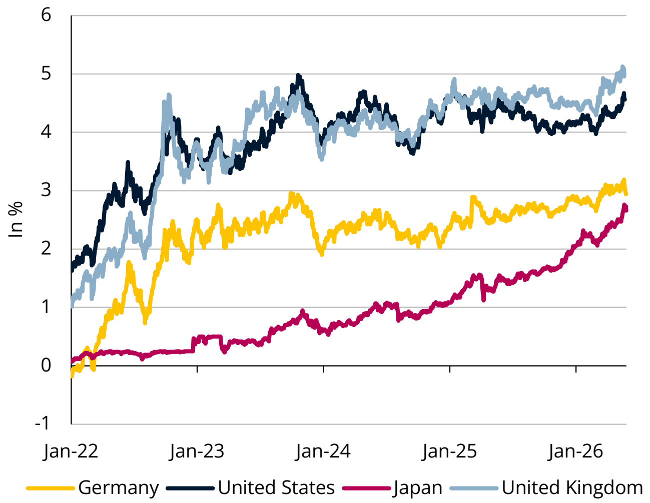
February levels. At the end of 2025, household gas prices remained around twice as high as those observed before the 2022 energy crisis. Current forecasts nevertheless predict a 6% fall in 2026 compared to 2025 in the baseline scenario, despite tensions in the Middle East[1] . Second-round effects are, however, expected with a lag of several months, particularly via food prices: rising gas prices are passed on to nitrogen fertilisers and, through this channel, to agricultural production costs, explaining the expected rise in food inflation in 2027 (3.3% after 2.9% in 2026).

The situation in the Gulf does not yet appear to have had a significant impact on the gas and electricity prices paid by businesses. According to FEDIL, large companies have already secured between 50% and 75% of their gas requirements in advance. However, should tensions in the Middle East persist or escalate, the price pressures faced by businesses and households could intensify during the 2nd half of 2026.

[1] See "Inflation forecast: 2.5% in 2026, potentially 4% in the event of a prolonged conflict in the Middle East".

International

10-YEAR GOVERNMENT BOND YIELD



Source: Macrobond

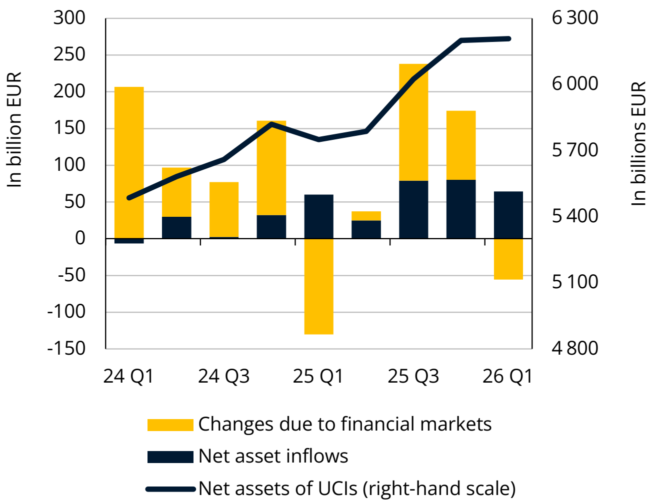
Rising sovereign yields

Since the start of 2026, 10-year government bond yields in major advanced economies have been rising. The Japanese yield has seen the sharpest increase, rising by 60 basis points over the first five months of 2026, compared with 38 and 49 basis points for the US and the UK. Germany has seen a more modest increase of 10 basis points. Whilst German and Japanese sovereign bond yields hover around 3%, those in the UK are fluctuating around 5% (and the US is approaching that level). The UK rate has thus reached levels not seen since the 2008 financial crisis, whilst Japan is at levels not seen for three decades.

Heightened geopolitical tensions, higher inflation expectations and downward revisions of growth forecasts in the wake of the war in Iran have led investors to demand higher yields. High levels of public deficit and debt in the US and the UK have exerted upward pressure. More specific factors, such as a political crisis in the UK and an ambitious fiscal stimulus plan in Japan, are also fuelling investor distrust, resulting in higher required yields.

Financial sector

COLLECTIVE INVESTMENT UNDERTAKINGS



Source: CSSF

Net inflows continue to rise in investment funds

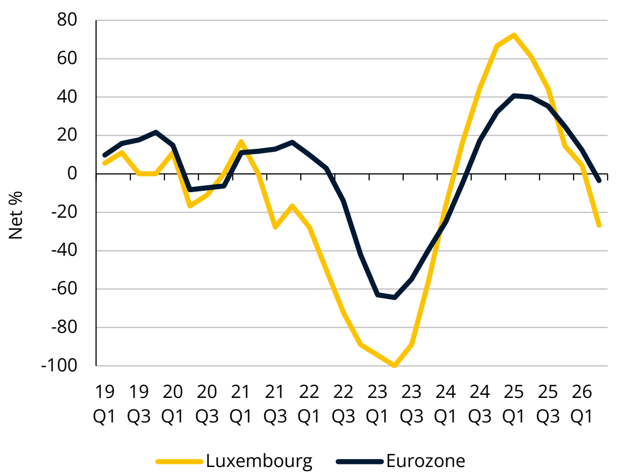
Assets in undertakings for collective investment (UCIs) had risen by 6.5% year-on-year in 2025, driven by valuations but also, and above all, by the recovery in net inflows into bond and money market funds and, to a lesser extent, into equity funds.

They rose sharply again in January and February 2026, but were affected in March by the turmoil on the stock markets linked to the conflict in Iran. Valuations thus fell temporarily across all fund types, except for USD money market funds. Net inflows declined somewhat for equity funds, whilst they continued to rise for money market funds.

Following the brief fall in March, stock markets rebounded in April and stabilised in May. The Euro Stoxx 50 returned to its level from the start of the year as early as the 2nd week of April and has stagnated at that level since. Long-term interest rates, in contrast, rose sharply in March and then again in May, which is likely to have a negative impact on the valuations of bond fund assets.

Real estate

DEMAND FOR MORTGAGE LOANS



Source: ECB (Bank Lending Survey, non-centred averages over 3 quarters, latest data point: demand forecast for the 2nd quarter of 2026).

Banks expect a decline in mortgage lending

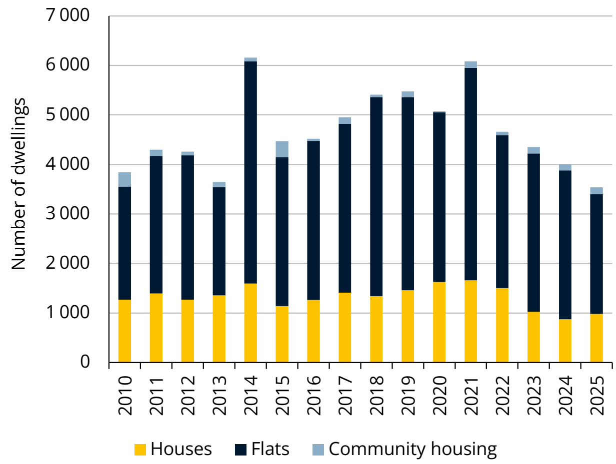
Household demand for mortgage loans, after having fallen in 2022–23 and rebounded in 2024–25, is now slowing strongly according to the bank lending survey. Banks are even widely anticipating a decline in demand for mortgage loans in the 2nd quarter of 2026, both in Luxembourg (net balance of -60) and in the euro area (-20). In the Grand Duchy, banks cite the negative impact of deteriorating consumer confidence and also point to a tightening of credit standards linked to the general economic outlook.

Data on loans granted to non-developers for residential properties in Luxembourg show a 10% year-on-year decline in the 1st quarter of 2026. So it appears that following quarters marked by support measures and their expiry, mortgage lending has not yet picked up durably.

Mortgage rate trends are mixed: variable rates have been falling since early 2024 and stood at 3.1% in the 1st quarter of 2026, whilst, conversely, fixed rates have been rising for the past year and stand at 3.7%. Depending on developments in the Middle East and the resulting impact on inflation, the average mortgage rate could either stabilise or rise again, with a risk of slowing mortgage lending.

Construction

BUILDING PERMITS



Source: STATEC

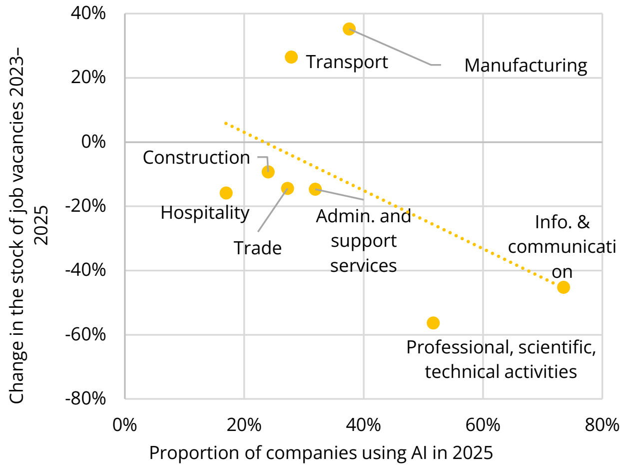
Residential building permits fell further in 2025

Over the whole of 2025, residential building permits, measured in terms of useful floor area, fell for the fourth consecutive year, by around 15%. The decline was slightly less pronounced in terms of the number of dwellings (-12%), reflecting the trend towards smaller average surface observed in recent years. However, the decline was concentrated solely on flats (20% fewer dwellings authorised than in 2024), while permits for houses increased for the first time since 2021 (+13% year-on-year). Residential permits also fell in Belgium in 2025, while France and Germany recorded a first increase following the declines in previous years. However, in Luxembourg and neighbouring countries, the number of authorised dwellings remains well below the one of 2019.

Building permits for non-residential buildings, on the other hand, rebounded sharply in 2025 in Luxembourg, but only after falling to particularly low levels in the previous year. As a result, the authorised floor area is close to its 2022 level. Overall, building permits increased in 2025 in Luxembourg, driven by the non-residential sector, but remain well below pre-crisis levels.

Labour market

USE OF AI AND JOB VACANCIES



Note: Financial and insurance activities are not covered by the survey on AI usage (-13% in job vacancies between 2023 and 2025).

Sources: ADEM, STATEC

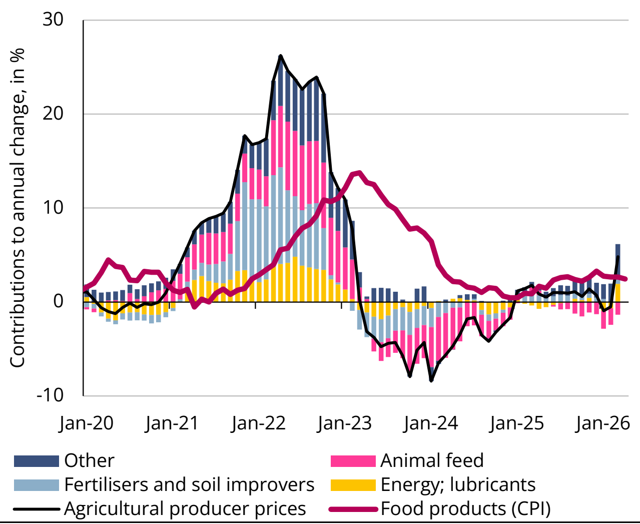
More AI, fewer jobs?

Artificial intelligence (AI) may already have a negative impact on employment in certain sectors. For example, in the information and communication sector, where 73% of companies reported using AI in Luxembourg in 2025 (according to the ICT business survey), the workforce declined by 1.7% in Luxembourg last year (compared with an average annual increase of 3.5% between 2010 and 2024) and fell by 0.2% in the eurozone. Job vacancies in this sector also fell by 45% between 2023 and 2025. As for professional, scientific and technical activities, where 52% of companies in Luxembourg reported using AI, the slump in vacancies was even more pronounced: -56% between 2023 and 2025.

These trends are also reflected in the unemployment figures, where it is the business support occupations (including in particular ‘information and telecommunications systems’, ‘accounting and management’ and ‘secretarial and administrative support’) that recorded the sharpest rise (+16% year-on-year in April, representing an additional 660 jobseekers). Yet some of these occupations are classified as experiencing ‘shortages’.

Inflation

AGRICULTURAL PRODUCER PRICES



Sources: Ministry of Agriculture, Food and Viticulture, STATEC

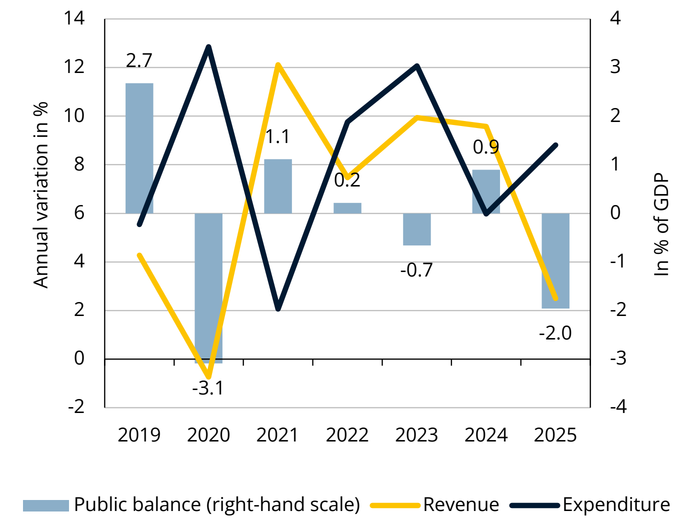
Rise in agricultural producer prices

In March 2026, agricultural producer prices began to rise again (+4.8% year-on-year, following a -0.5% decline in February), a trend that is expected to continue with the closure of the Strait of Hormuz. This increase is mainly due to rising energy costs (+33%) and fertiliser costs (+14%, with a particularly sharp rise in nitrogen and phosphate fertilisers +50%), as well as higher agricultural construction costs (+10%). Conversely, feed prices — which account for nearly a quarter of costs — are still falling (–5.8%), unlike in 2022 when they had pushed prices sharply upwards against a backdrop of tensions linked in particular to the war in Ukraine, a key region for cereal exports.

Food inflation remains moderate (+2.4% in April), well below the levels of 2022–2023, when energy and geopolitical shocks had a knock-on effect in Luxembourg with a lag of around one year. Meat is now the main driver of increases: prices rose by around 7% in early 2026, largely due to the decline in livestock numbers in Europe, itself linked to the high costs of animal feed observed in previous years.

Public finances

PUBLIC BALANCE ACCORDING TO NATIONAL ACCOUNTS



Source: STATEC (National Accounts)

A lower-than-expected public balance

According to initial estimates from the quarterly national accounts, the public balance has shifted from a surplus of EUR 776 million in 2024 (0.9% of GDP) to a deficit of EUR 1,756 million in 2025 (-2.0% of GDP, compared with the -0.1% of GDP forecast last autumn). While the balance recorded over the first three quarters of 2025 showed a slight surplus of 0.1% of GDP, the fall in corporation tax coupled with exceptional expenditures recorded in the 4th quarter weighed heavily on the result for the year as a whole. These exceptional expenditure items mainly relate to capital transfers to the special fund for affordable housing (EUR 185 million), the climate and energy fund (EUR 96 million) and the development cooperation fund (EUR 53 million).

According to data collected in the 1st quarter (which differ from national accounts data in terms of scope and the date of recording of transactions), revenues rose by 3.6% year-on-year, driven by a rebound in VAT and household tax revenue, whilst corporate tax and tobacco excise duties fell. The decline in the latter is due to a stockpiling effect at the end of 2025, in anticipation of the increase in excise duties on cigarettes and fine-cut rolling tobacco on 1 January 2026.

Dashboard

	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-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	10.0	-0.3	10.9	1.0	-3.4	-6.0	-10.2	-5.9	...	-7.3	0.3
Construction output per working day, in volume	6.5	0.0	2.0	4.4	-0.1	4.8	1.7	3.5	...	3.3	2.1
Turnover by volume of total retail trade	3.5	5.5	-3.4	4.3	-0.4	2.2	-0.5	-0.2	...	0.7	-0.9
Prices, wages											
Consumer price index (NCPI)	2.4	2.6	2.7	3.0	3.1	1.3	1.3	2.4	3.1	2.2	1.6
Inflation excluding oil products	2.4	2.4	2.5	2.6	2.9	1.9	1.7	1.8	1.7	1.7	1.8
Oil product index	2.2	7.5	7.0	12.2	5.7	-9.2	-7.3	11.5	27.6	10.3	-3.0
Industrial producer price index	-0.8	-1.5	-2.7	-2.8	-3.0	-6.1	-6.8	-6.3	...	-6.4	2.6
Construction price index[1]	1.8	1.8	2.0	2.0	2.0	...	...	...	...	2.0	0.8
Average wage bill, per person (QNA)	5.3	5.3	4.6	4.6	4.6	...	...	...	...	4.6	2.4
Foreign trade											
Exports of goods (volume)	0.5	6.0	4.2	-2.7	9.9	-1.4	-5.4	6.6	...	0.0	-1.8
Imports of goods (volume)	12.1	2.7	29.1	2.9	5.9	12.0	20.2	-0.6	...	9.6	-2.3
Employment, unemployment											
Domestic number of employees	1.3	1.4	1.5	1.5	1.4	1.5	1.5	1.5	1.7	1.5	0.7
National employment	1.4	1.6	1.7	1.5	1.5	1.3	1.3	1.2	1.3	1.3	0.9
Unemployment rate (% of working population, seas. adj.)	5.9	6.1	5.9	6.1	6.2	6.3	6.3	6.3	...	6.3	5.9

Source: STATEC. QNA - Quarterly National Accounts. [1] Estimates based on half-yearly data

Indicators

	% change on previous quarter					
	2024 Q4	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**	**2026 Q1**
Eurozone - Real GDP growth (European Commission)	0.4	0.6	0.1	0.3	0.2	0.1
Luxembourg - Real GDP growth (STATEC)	0.7	0.6	0.6	1.2	-0.1	-
	Annual variation in %					
	2022	**2023**	**2024**	**2025**	**Forecast 2026**	**Forecast 2027**
Luxembourg - Real GDP growth (STATEC, NDC 2-25)	-1.1	0.1	0.4	0.6	1.7	2.1

GDP at current prices (2025)

EUR **89 522** million

Monthly minimum wage (01/05/2025)

EUR **2 703.74**

Next scheduled wage indexation: **June 2026**

Consumer price index (04/2026)

1 057.00

Index half-yearly average: **1 038.34**

Current account balance (Q4 2025)

EUR **-47** million

Resident population (01/01/2026)

691 000

STATEC

For further information

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