CONJONCTURE FLASH

Economy and prices

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

A SITUATION THAT HAS YET TO CLEAR

Economic activity held up relatively well in the eurozone and in Luxembourg in the 1st quarter, despite seemingly lacklustre results. Economic momentum is expected to lose steam in the 2nd quarter due to tensions linked to the blockade of the Strait of Hormuz, some of which could persist even after its reopening.

GDP figures for the 1st quarter of 2026 were rather weak in the eurozone and Luxembourg. Eurozone GDP actually fell by 0.2% quarter-on-quarter, whilst Luxembourg's stagnated. A more detailed analysis of these figures, however, reveals a less negative picture than might appear at first glance.

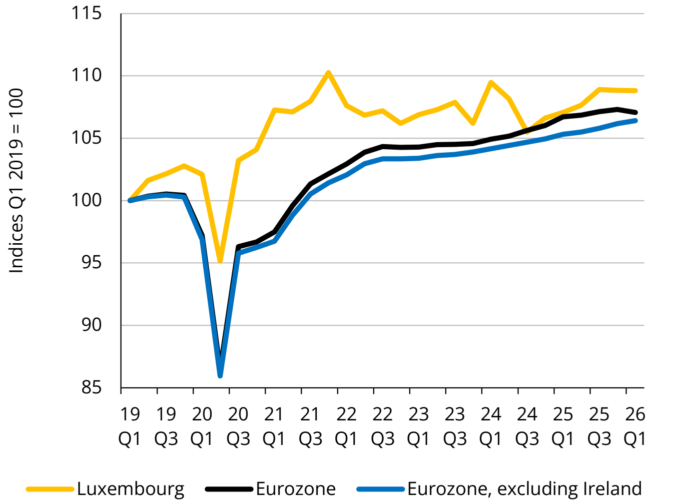
The decline observed in the eurozone stems mainly from Ireland's performance (-12% quarter-on-quarter), which was once again heavily disrupted by the volatile activities of multinationals based in that country. Excluding Ireland, the eurozone registered growth of +0.2% quarter-on-quarter, a rate close to that of the 4th quarter of 2025. However, performance varied across the main Member States. Economic activity picked up in Germany (+0.3%, compared with +0.2% in the previous quarter), driven in particular by a rebound in exports and public consumption expenditure. Italian GDP also rose by 0.3% (as in the previous quarter), whilst Spain's growth slowed (+0.6%, following +0.8% in Q4 2025). France, by contrast, showed a slight decline[1] (-0.1%).

In Luxembourg, the stabilisation of GDP in the 1st quarter was due to various factors. Value added in industry made a particularly negative contribution to the overall result, driven mainly by a decline in the production of equipment goods (a counterreaction following a very sharp rise at the end of 2025). Financial activities also had a downward impact, though to a lesser extent. By contrast, certain sectors of the market economy – which had been performing poorly or stagnating in previous quarters – regained momentum in early 2026, notably construction, retail trade, transport and storage services, and real estate activities[2].

A less favourable outlook for the second quarter, and possibly beyond

The signing on 17 June of a memorandum of understanding aimed at ending the conflict between the United States and Iran came as welcome news: stock markets reacted positively, and the price of a barrel of oil fell (returning to around USD 80 for Brent, after having comfortably exceeded USD 100 from March to May).

GDP IN VOLUME TERMS



Sources: Eurostat, STATEC (seasonally adjusted data)

Even so, the tensions caused by the blockade of the Strait of Hormuz suggest that economic activity will be sluggish in the 2nd quarter, and no doubt in the 3rd quarter as well. Since March, business surveys have shown a marked decline in consumer confidence, against a backdrop of rising inflation linked mainly to higher fuel prices – two factors likely to have a significant downward impact on household consumption expenditure. Business confidence indicators, particularly in the services sector, have also plummeted in the eurozone since March[3]. The global supply chain pressure indicator, which was already on the rise at the start of 2026, increased sharply in April and May and is now at its highest level since mid-2022.

Whilst traffic is resuming in the Strait of Hormuz, no one expects an immediate return to the levels seen before the blockade, due in particular to certain logistical constraints and the need to repair destroyed infrastructure. Furthermore, there remain numerous uncertainties regarding the substance of what will ultimately be negotiated between the United States and Iran. This is likely to maintain a certain degree of pressure on prices, which could weigh on economic activity.

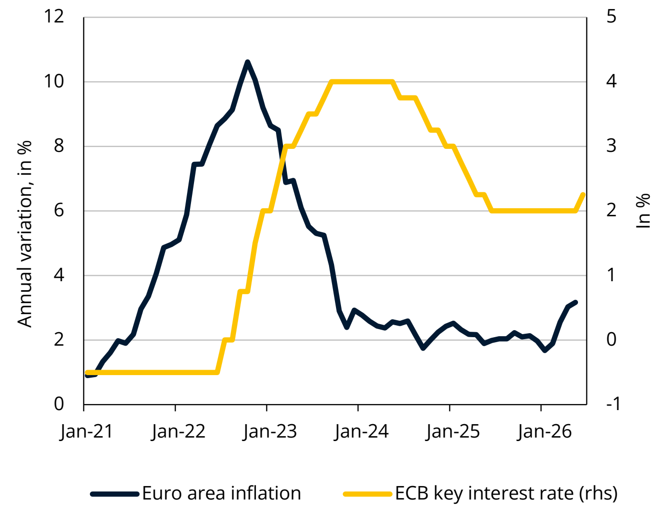
[1] In France, household consumption, investment and the balance of trade in goods and services (largely due to the fall in aerospace exports) all declined. This trend was partially offset by a significant restocking of inventories (particularly of aerospace products) and an increase in public consumption.

[2] The (positive) contribution from predominantly non-market activities (public administration, defence, education, health and social care) was, moreover, slightly less pronounced than in the two previous quarters.

[3] In Luxembourg, the confidence indicator for non-financial services had held up well in March and April, but it fell sharply in May (reaching a nine-month low).

Financial environment

INFLATION AND KEY INTEREST RATE IN THE EUROZONE



Sources: Macrobond, ECB

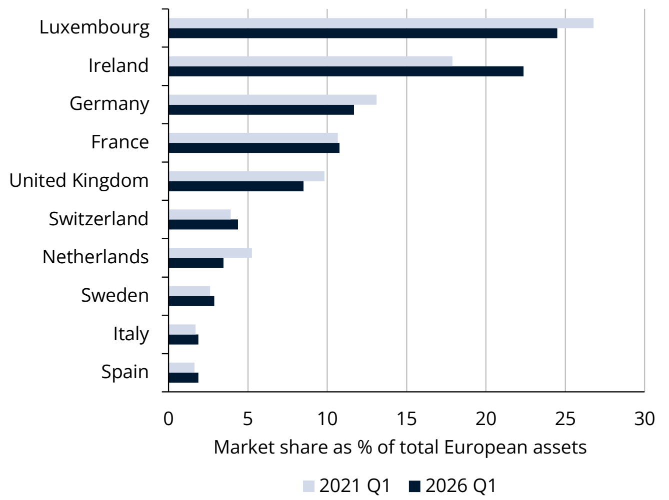
Monetary policy is tightening again in the eurozone

At its Governing Council meeting on 11 June, the European Central Bank (ECB) decided to raise key interest rates by 25 basis points in order to counter growing inflationary pressures. Inflation in the eurozone has indeed accelerated, rising from 1.7% in January 2026 to 3.2% in May 2026, above the ECB's 2% target. Energy prices – under pressure due to the blockade of the Strait of Hormuz – rose by 11% year-on-year, accounting for a third of the inflation observed in May.

This tightening of monetary policy comes almost three years after the last rate increase in September 2023. During the 2022–2023 energy crisis (triggered by the outbreak of the war in Ukraine), the ECB had waited until inflation in the eurozone reached a level close to 9% before raising key interest rates, bringing them from 0 per cent to 4.5 per cent in less than a year and a half. Faced with the new inflationary shock, the ECB has decided to act more swiftly. This rise in key interest rates, which is moderate for the moment, will lead to an increase in variable-rate mortgages and higher costs for business and consumer loans.

Financial sector 1/2

NET ASSETS OF INVESTMENT FUNDS



Source: EFAMA

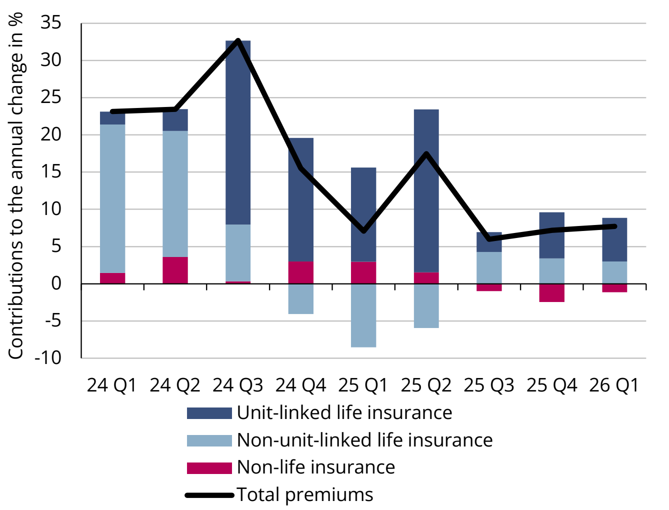
Investment funds are performing well despite the turbulence on the stock markets

European undertakings for collective investment enjoyed particularly strong momentum in the 1st quarter of 2026, driven by both retail and institutional investors. According to EFAMA, it was mainly households in Germany, Spain, Belgium, France and Poland that purchased funds during the quarter, with each country recording inflows of over EUR 4 billion. European net assets rose by 9.4% year-on-year, with positive net inflows across all major fund categories and a sharp increase for equity and money market funds. Demand for ETFs (*Exchange-Traded Funds*) remained particularly robust, with net inflows exceeding the EUR 100 billion mark for the first time in a single quarter. Ireland is the main beneficiary of this surge in ETF popularity and has seen its market share rise to 22.4% of European assets under management, closing in on Luxembourg (24.5%).

After falling briefly in March due to stock market turbulence linked to the conflict in Iran, valuations and net inflows into investment funds in Luxembourg rebounded in April (+15% in net assets year-on-year). This rise was seen across almost all fund types, with the exception of money market and dollar-denominated bond categories, which were affected by the depreciation of the dollar against the euro.

Financial sector 2/2

INSURANCE PREMIUMS COLLECTED IN LUXEMBOURG



Sources: CAA, STATEC

Life insurance boosted by unit-linked products

In 2025, value added in the financial sector was driven by insurance companies. Unit-linked life insurance benefited from buoyant stock markets (+11% in premiums collected in 2025), at the expense of guaranteed-return products, which were less attractive due to falling interest rates (-2% year-on-year). Life insurance premiums paid by non-residents had risen by 14%, driven by French and British investors for the second consecutive year.

In the 1st quarter of 2026, life insurance premiums rose by 7.7% year-on-year (+8.5% quarter-on-quarter), still driven by unit-linked products. However, the rise in key interest rates and long-term rates is expected to make guaranteed-return products more attractive from the 2nd quarter onwards. Non-life insurance premiums, by contrast, fell by 2.2% year-on-year. This decline is mainly due to restructuring measures carried out in 2025 following strategic decisions by several insurance groups (liquidation or portfolio transfer, re-domiciliation, according to the CAA). With a constant perimeter, non-life insurance premiums grew by 3.5% year-on-year.

Labour market

EVOLUTION OF THE LABOUR FORCE AND PARTICIPATION RATE

* Labour force divided by a quarterly approximation of the working-age population
Sources: ADEM, STATEC (seasonally adjusted data)

Rising labour force participation rate

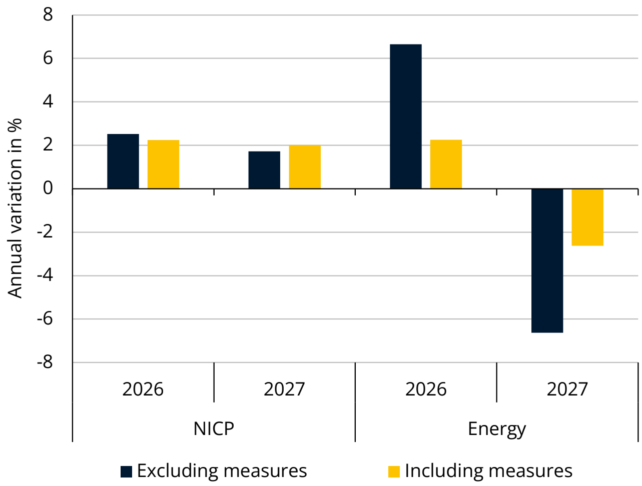
The participation rate has risen significantly in Luxembourg since the end of 2024, meaning that a larger proportion of the working-age population is participating in the labour market. Growth in the labour force (residents in employment or registered with ADEM) did indeed strengthen last year (rising from +1.4% in 2024 to +1.7% in 2025), whilst population growth slowed (falling from +1.5% to +1.3%) following a decline in net migration.

This acceleration in the labour force had initially been driven by the rebound in employment. In early 2026, employment among residents slowed (the vast majority of jobs created in Luxembourg were filled by cross-border workers), whilst the number of unemployed rose sharply.

It should be noted that the rise in the unemployment rate, from 6.0% in the 3rd quarter of 2025 to 6.2% in May 2026, is attributable to the increase in the number of unemployed people not receiving benefits. Combined with the rise in the labour force participation rate, this trend suggests that the increase in unemployment is partly due to previously inactive people registering with the ADEM.

Inflation

INFLATION FORECASTS WITH AND WITHOUT THE 'RESILIENZPAK 2026' MEASURES



Note: Only energy-related measures are taken into account in these calculations.
Source: STATEC

Lower inflation thanks to tripartite measures

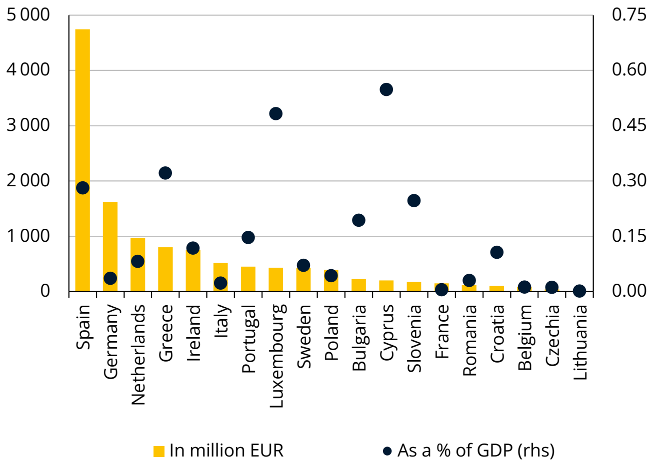
In its latest inflation forecasts (Note de conjoncture 1-26), STATEC projected, in its baseline scenario, inflation of 2.5% in 2026 and 1.7% in 2027, with a further index bracket in the 2nd quarter of 2027, following the one in June 2026. However, the measures in the 'Resilienzpak 2026', adopted as part of the tripartite agreement, are expected to curb the rise in energy prices to 2.3% in 2026, compared with 6.6% if no measures were taken. This would result in headline inflation of 2.2% in 2026, a fall of 0.3 percentage points compared with a scenario without these measures.

The baseline scenario, which assumed the Strait of Hormuz would already reopen from May onwards, remains broadly valid in terms of oil prices. The price of Brent fell from a peak of around USD 125 per barrel at the end of April to USD 80 in mid-June, with the average for the 2nd quarter standing at USD 108, which is in line with the baseline scenario (USD 113 per barrel).

The introduction of the measures does not alter the forecast for the next index bracket in the baseline scenario (2nd quarter of 2027), but reduces the risks of an acceleration in inflation that could bring forward the triggering of an indexation to the 2nd half of 2026.

Public Finances

COSTS OF MEASURES TAKEN IN THE CONTEXT OF THE WAR IN IRAN



Sources: Bruegel (last updated: 16 June), Eurostat (GDP for 2025), government of Luxembourg

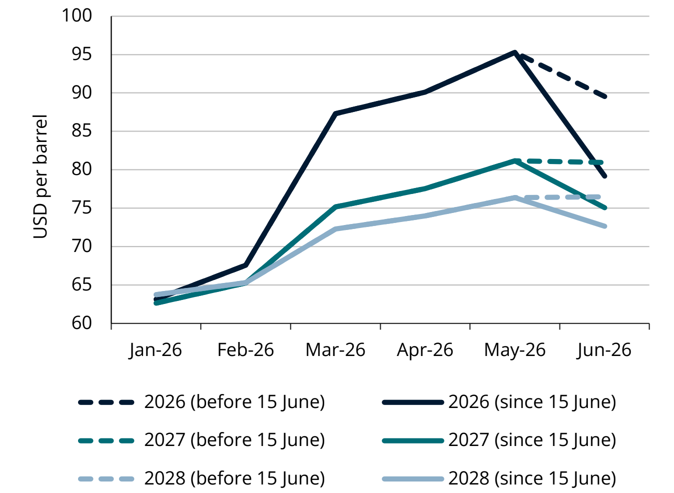
Various energy support measures across Europe

With the tripartite agreement of 8 June 2026, Luxembourg joins many other European countries that have introduced support measures in the wake of the war in Iran and the resulting rise in energy costs. According to data compiled by Bruegel, EU countries are spending around EUR 12 billion on these measures (equivalent to 0.1% of EU GDP). In absolute terms, Spain has committed by far the highest amount (over EUR 4.5 billion), whilst in percentage terms of GDP, Cyprus leads the way, ahead of Luxembourg. For the latter, the entire tripartite agreement is taken into account, even though certain measures form part of a broader context than the energy crisis (notably the increase in the tax credit for the social minimum wage and the adjustment of tax scales).

The measures taken in Europe involve, on the one hand, targeted support for businesses in the transport, agriculture and fisheries sectors. On the other hand, they consist either of reductions in taxes on fossil fuels or of support measures for households (mainly those with low incomes) to help them cope with rising energy costs. In Luxembourg, a temporary reduction in various energy prices has been decided, covering both fossil fuels – as in the rest of Europe – and electricity prices.

Energy

PROJECTED ANNUAL OIL PRICES



Sources: Macrobond (STATEC calculations)
Explanatory note: The dark blue curve represents, for each month of 2026, the average of the anticipated future prices for the whole of 2026 as observed in the contracts traded that month.

Easing oil prices: is the crisis behind us?

The announcement in mid-June of a 60-day extension to the ceasefire and the reopening of the Strait of Hormuz by the United States and Iran caused oil prices and price expectations for the coming years to fall. Despite the uncertainties still surrounding this agreement, Iran and the United States reported further progress in their negotiations over the weekend, which contributed to reassure investors. Oil price forecasts for 2026 have fallen by around USD 10 per barrel since the announcement, and future prices for 2027 and 2028 have also declined. However, they remain above the levels seen before the conflict.

Several factors explain this situation. On the one hand, it remains difficult to assess how long it will take for normal shipping conditions to be fully restored in the Strait of Hormuz, as well as the pace at which producers will be able to restore their output levels. On the other hand, the reserves mobilised to cushion the impact of the crisis will need to be gradually replenished, which supports demand and therefore prices. The International Energy Agency recently indicated that it expects a return to a situation of oversupply in the oil market in 2027.

Dashboard

	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-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	-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	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	4.9	4.1	2.6	3.0	3.5	3.7	1.3	1.9	...	2.2	1.6
Prices, wages											
Consumer price index (NCPI)	2.6	2.7	3.0	3.1	1.3	1.3	2.4	3.1	2.3	2.6	1.7
Inflation excluding oil products	2.4	2.5	2.6	2.9	1.9	1.7	1.8	1.7	1.0	1.5	2.0
Oil product index	7.5	7.0	12.2	5.7	-9.2	-7.3	11.5	27.6	25.7	21.5	-4.3
Industrial producer price index	-1.5	-2.7	-3.4	-3.7	-7.7	-8.3	-7.8	-5.4	...	-7.2	3.6
Construction price index[1]	1.8	2.0	2.0	2.0	...	...	...	...	...	2.0	0.8
Average wage bill, per person (QNA)	5.4	4.2	4.2	4.2	3.4	3.4	3.4	...	...	3.4	3.4
Foreign trade											
Exports of goods (volume)	6.0	4.2	-2.7	9.9	-1.4	-5.4	6.6	...	...	0.0	-1.8
Imports of goods (volume)	2.7	29.1	2.9	5.9	12.0	20.2	-0.6	...	...	9.6	-2.3
Employment, unemployment											
Domestic number of employees	1.4	1.5	1.5	1.4	1.5	1.5	1.5	1.7	1.6	1.6	0.8
National employment	1.8	1.9	1.8	1.7	1.3	1.3	1.3	1.3	1.3	1.3	1.2
Unemployment rate (% of labour force, seas. adj.)	6.1	5.9	6.1	6.2	6.2	6.2	6.3	6.3	6.2	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	0.7	0.1	0.3	0.2	-0.2
Luxembourg - Real GDP growth (STATEC)	1.1	0.4	0.5	1.2	0.0	0.0
	Annual variation in %					
	2022	**2023**	**2024**	**2025**	**Forecast 2026**	**Forecast 2027**
Luxembourg - Real GDP growth (STATEC)	-1.1	0.1	0.4	0.6	1.2	1.9

GDP at current prices (2025)

EUR **89 522** million

Monthly minimum wage (01/06/2026)

EUR **2 771.33**

Next scheduled wage indexation:
Q2 2027

Consumer price index (05/2026)

1 055.25

Index half-yearly average:
1 041.62

Current account balance (Q4 2025)

EUR **-47** million

Resident population (01/01/2026)

691 000

STATEC

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