Report on CdRS activities

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First Half of 2026

The first half of 2026 was characterized by subdued economic growth and heightened geopolitical uncertainty at both the European and global levels. The IMF and the ECB project euro area GDP growth of 1.1% and 0.9%, respectively, in 2026. Growth is expected to strengthen slightly in 2027, reaching 1.2% and 1.4% according to the IMF and the ECB. In June 2026, the ECB increased its key interest rates by 25 basis points. For Luxembourg, STATEC, the national statistics institute, estimates GDP growth at 1.2% in 2026 and 1.9% in 2027. Key drivers for the outlook are the war in the Middle East and the energy shock. In addition, the Euro area benefits less than other areas from the AI investment boom while inflation threats loom.

In this context marked by uncertainty, the CdRS continued its analysis of selected risks and vulnerabilities to financial stability.

The domestic residential real estate market has been a continuous point of attention for the CdRS. Fiscal support measures that were introduced in 2024 and extended into the first half of 2025 have led to a pick-up in market activity. Quarterly price growth turned positive in Q4 2024, peaked in Q2 2025, briefly turned negative in Q3 2025 and subsequently recovered to 0.3% in Q1 2026 and 1.1% Q2 2026. Mortgage loan production remained mixed despite a pickup in the stock of outstanding mortgages. With regard to developments in credit quality among major domestic banks, the CdRS examined non-performing mortgage loans, noting that the related NPL ratio improved from 1.9% in Q4 2025 to 1.6% in Q2 2026. The CdRS took note that household debt-to-income has declined from 185% at its peak in 2022 to 153% in early 2026. The non-financial corporate sector linked to real estate activities including construction and real estate promotion exhibits higher but declining levels of non-performing loans, of around 8.9% in Q2 2026. The CdRS has discussed the developments in the real estate sector in the first half of 2026 and will continue to attentively monitor developments in that regard, particularly in light of the impact of interest rate developments on the sector.

Furthermore, the CdRS has assessed recent geopolitical developments in the Middle East and their implications thereof for the stability of the domestic financial sector. It has concluded that while current developments pose a challenge, the sector is resilient.

The CdRS also continued to discuss operational resilience within the financial sector, notably highlighting its increasing importance amid geopolitical tensions and increased ICT reliance, while also examining developments in the artificial intelligence landscape.

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In terms of macroprudential policy, the CdRS has renewed twice its decision to maintain the countercyclical capital buffer at 0.5%. While the credit-to-GDP gap remains negative, the CdRS considered that continuing economic and geopolitical uncertainty supported maintaining this policy stance.

Finally, the CdRS has decided in January 2026 to not reciprocate a sectoral systemic risk buffer measure instituted by the Austrian macroprudential authority linked to non-financial corporations in the construction and real estate sectors, given that none of the Luxembourg credit institutions breached or were close to the de minimis threshold set by the relevant ESRB bodies.