Luxembourg

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IN A NUTSHELL

→ The economy returned to modest growth of 0.6%, primarily driven by financial services.

→ After two years of sharp falls house prices stabilised and were broadly unchanged over the year.

→ House purchases and mortgage origination improved due to lower interest rates.

→ Green mortgages are increasing but are held back by data inadequacy.

MACRO-ECONOMIC OVERVIEW

The economy continued to recover, but slowly, at 0.6% according to European Commission estimates, with growth forecast to strengthen to 1.6% in 2026 and 2.0% in 2027.

Growth relies heavily on the financial-centre which benefitted from lower interest rates and higher fund issuance. Construction remained well below its previous cycle peak and housing investment recovery is expected to be only gradual.

Although the number of jobs increased by 1.2%, this was outstripped by demographic factors and the unemployment rate rose to 6.5% (6.4% last year). The European Commission forecasts further increases in 2026 and 2027.

Inflation increased to 2.5% (2.3% in 2024) and is expected to increase further, mainly on increased energy prices and higher service costs (due to the high level of indexation of wages).

HOUSING MARKETS

After declines of 9.1% in 2023 and 5.2% in 2024, house prices rose by 1.6% overall in 2025, although by the final quarter the recovery stalled. In Q2, prices increased significantly as buyers bought forward purchases ahead of the expiry of some temporary tax relief on house purchases. The index of new build prices is volatile given the low levels of underlying activity.

Housing construction remained significantly below its long term average. In the first three quarters, 2,836 dwellings were authorised, up slightly from the equivalent period in 2024 (2,540), but as new permits per year were over 6,000 as recently as 2021 clearly construction activity is low. Construction activity (measured by value added) was similarly slightly above the level in 2024 but 28% lower than in 2021.

MORTGAGE MARKETS

As with most countries covered in Hypostat, interest rates decreased over the year. Floating rate mortgages, the cheapest rates currently and increasingly more commonly used, fell by 89 basis points over the year to 3.15%. Longer dated fixed mortgages generally fell by lesser amounts depending on the maturity. Largely as a consequence, the mortgage market decreased by 2.5% to EUR 42.7 bn after a 0.8% growth in 2024 and a shrinkage of 1.2% in 2023. The growth rates are still significantly below the near double digit growth in the earlier years of the decade.

The regulator (the CSSF) removed a temporary relaxation of LTV rules for buy-to-let mortgages in June.

The state home-loan guarantee scheme remains in place until March 2027. Under this scheme, designed to help borrowers who are unable to provide the deposit for their property, the state provides a partial guarantee for qualifying borrowers and allows the guaranteed portion to be treated as 'own funds' for LTV cap purposes.

MORTGAGE FUNDING

Given the high level of deposits and generally strong liquidity positions of banks, mortgages are almost entirely funded without use of capital markets instruments. The covered bond law, which was used mainly for off-shore assets, no longer has any bond outstanding and there are no foreseeable prospects for any issuance.

GREEN FUNDING

A paper published by the bankers association and KPMG describes how some banks are offering lower rate green mortgages and requiring EPC data for new loans but that the data for the existing housing stock has poor EPC reporting and definitions are not standardised between banks. It proposes the introduction of a national EPC database and regulatory definitions.

	LUXEMBOURG 2024	LUXEMBOURG 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	0.47	0.6	1.5
Unemployment Rate (LSF), annual average (%) (1)	6.4	6.5	6.0
HICP inflation (%) (1)	2.3	2.5	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	63.5	64.1	68.5
Gross Fixed Investment in Housing (annual change) (1)	-10.1	-1.5	2.8
Building Permits (2015=100) (2)	n/a	n/a	86.9
House Price Index - country (2015=100) (2)	162.5	165.11	161.92
House Price Index - capital (2015=100) (2)	n/a	n/a	n/a
Nominal house price growth (%) (2)	-5.2	1.6	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	43,820	42,735	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	65,203.48	62,208	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (2)	134.01	124.11	81.39
Gross residential lending, annual growth (%) (2)	n/a	n/a	2.8
Typical mortgage rate, annual average (%) (2)	3.96	3.15	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables

LUXEMBOURG FACT TABLE

Which entities can issue mortgage loans in your country?	Banks and bank' branches from German Bausparkassen and the "Caisse Nationale d'Assurance Pension", which lends only to private sector employees who contribute to the pension fund.
What is the market share of new mortgage issuances between these entities?	100%
Which entities hold what proportion of outstanding mortgage loans in your country?	Six domestically-oriented banks, hold 90% of mortgage loans.
What is the typical LTV ratio on residential mortgage loans in your country?	The usual maximal LTV ratio amounts to 80%.
How is the distinction made between loans for residential and non-residential purposes in your country?	Not available
What is/are the most common mortgage product(s) in your country?	The most common mortgage contract is at a fixed rate. (62% of loans issued in 2021 = fixed, and so 38% variable)
What is the typical/ average maturity for a mortgage in your country?	The standard maturity for mortgage loans is 25 to 30 years, while some banks grant credits for up to 35 years.
What is/are the most common ways to fund mortgage lending in your country?	Mostly deposits
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Roundtrip transaction cost (registration tax, notary fees, real estate agent's fee, transcript tax) are between 12%-16.5%.
What is the level (if any) of government subsidies for house purchases in your country?	Eligible households can receive a capital grant of €500 to €10,000 toward home purchase or construction, with higher amounts available for condominiums, row houses, or semi-detached homes, subject to income-based eligibility criteria.

Sources:
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