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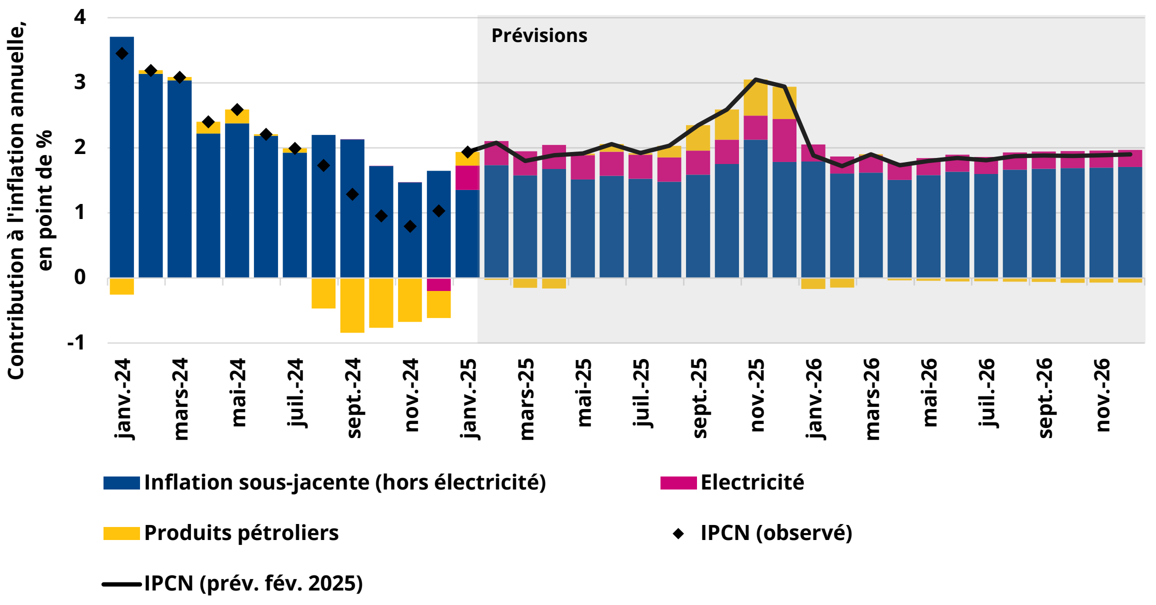
Inflation forecast

2.2% FOR 2025 AND 1.8% FOR 2026

With inflation rates falling below 1% in the last quarter of 2024, the slowdown in inflation in Luxembourg was stronger than expected. At the turn of 2025, however, the lifting of tariff shields led to an increase in gas and electricity prices, boosting inflation to a level close to 2% in January 2025. Following inflation of 2.1% in 2024, STATEC is forecasting inflation of 2.2% this year and 1.8% in 2026. The next indexations remain scheduled for the 2nd quarter of 2025 and the 2nd quarter of 2026.

After historically low levels in the final quarter of 2024, annual inflation rose to 1.9% in January 2025. This upward adjustment is the result of the rise in the price of petroleum products (+4.4% year-on-year in January, compared with -8.1% in December 2024) coupled with core inflation[1] which stood at +1.8% in January (compared with +1.5% a month earlier) as a result of the partial lifting of tariff shields[2].

ANNUAL INFLATION RATE AND CONTRIBUTIONS



Source: STATEC (forecasts as at 05/02/2025)

Note: The contribution of underlying inflation is defined as the difference between the NICP and the contributions of electricity and petroleum products.

[1] Underlying inflation is a sub-series of the general index (NICP) that excludes oil prices and other prices formed on international markets. In Luxembourg, underlying inflation includes the price of electricity.

[2] It should be noted that a full extension of the tariff shields would have generated inflation of 0.9% in January. A total lifting of the measures, on the other hand, would have resulted in inflation of 2.18% in January.

In the last quarter of 2024, petroleum product prices fell by 12% and underlying inflation fell to 1.6% (compared with +4% a year earlier). While the slowdown in underlying inflation excluding electricity continues in January 2025, supported in particular by slower growth in services prices (+2.2% year-on-year in January, compared with +3% in December 2024), it is overshadowed by the rise in energy prices. In January 2025, with the lifting of tariff shields, annual inflation in petroleum products rose to 4.4% (with heating oil and gas prices increasing by 28% and 35% respectively in January compared with December 2024), while the one of electricity prices increased to 24% (contributing 0.4 percentage points to overall inflation). Prices for non-energy industrial goods and food remained relatively stable in January, at +0.3% and +0.6% respectively over one year (compared with +0.5% each a month earlier).

For the eurozone as a whole, inflation rose to 2.5% according to a first estimate in January (compared with 2.4% in December 2024). While inflation in services and food fell (from +4% and +2.6% respectively in December 2024 to +3.9% and 2.3% in January), energy prices accelerated sharply in January (+1.8% year-on-year, compared with -6.1% a year earlier), reflecting in particular positive base effects linked to the weakness in energy prices at the start of 2024[3].

In 2026, inflation should fall below 2% in the eurozone...

The main international institutions expect inflation in the eurozone to average 2% in 2025 and 1.9% in 2026. For 2025, forecasts range from 1.9% (Oxford Economics) to 2.1% (European Commission, ECB and OECD). For 2026, inflation forecasts range from 1.7% (Oxford Economics) to 2% (IMF and OECD).

The new projections from Oxford Economics (OE), used in STATEC's inflation forecasting model, highlight the uncertainties surrounding the re-election of Donald Trump as President of the United States and forecast a significant depreciation in the euro exchange rate against the USD to 1.04 USD/EUR in 2025 and 1.06 USD/EUR in 2026 (compared with 1.10 USD/EUR and 1.12 USD/EUR previously). The Brent crude oil price assumption remains unchanged at USD 73/barrel for 2025 and 2026, but the new exchange rates would increase the euro oil bill. OE's latest forecasts, on the other hand, anticipate a slower decline in core inflation in the eurozone, as well as more sustained momentum in food inflation in 2025. Energy inflation in the eurozone should also accelerate in the first quarter of 2025, reflecting expected base effects on energy prices.

...and slow to 1.8% in Luxembourg

In Luxembourg, government measures on energy prices introduced during 2022 and 2023 have kept inflation at a lower level than in the eurozone. The complete disappearance of measures on petroleum products on 31 December 2024 and the partial abolition of electricity price-cap measures (with the price increase limited to 30% compared with September 2022) would, however, result in an upward adjustment in energy prices in 2025, which should subside by 2026, in line with the fall in energy prices on international markets. It goes without saying that market price expectations are volatile and that the resulting forecasts for 2026 should be treated with caution.

Mainly reflecting the rise in oil prices in euro[4] terms, STATEC has revised its inflation forecast for this year to 2.2% (compared with 2.1% in December). Next year's inflation forecast remains unchanged at 1.8%. Core inflation, which includes electricity, is maintained at 2.1% in 2025 and revised slightly upwards to 2% in 2026 (compared with 1.9% previously). According to the inflation forecasts in the central scenario, indexation would still take place in the 2nd quarter of 2025 and the 2nd quarter of 2026.

[3] The energy price index in the eurozone fell sharply towards the end of 2023 and into the first quarter of 2024, before rising again from December 2024. As a result, annual inflation in this index is positive from December 2024.

[4] And in particular the positive contribution of petroleum products towards the end of 2025, linked to positive base effects.

FORECASTS BASED ON ALTERNATIVE ENERGY PRICE ASSUMPTIONS

	Prévisions					
	Scénario central		Scénario bas		Scénario haut	
	2025	2026	2025	2026	2025	2026
	Variation annuelle en %, sauf mention contraire					
Inflation (IPCN)	2.2	1.8	1.7	1.0	2.9	2.7
Inflation sous-jacente	2.1	2.0	2.1	1.6	2.2	2.5
Produits pétroliers*	3.4	-1.6	-5.6	-11.3	14.6	5.8
Cote d'application	1.9	2.3	1.9	0.6	2.5	3.1
Cote d'application (Indice 100 au 1.1.1948)	962	984	962	968	968	998
Prix de l'électricité (EUR/MWh)**	283	331	283	297	283	374
Prix du gaz (EUR/MWh)**	97	93	89	77	110	111
Prix du Brent (USD/baril)	74	73	60	48	90	101
Taux de change USD/EUR	1.04	1.06	1.04	1.06	1.04	1.06
Indexation des salaires	2025 T2	2026 T2	2025 T2		2025 T2 2025 T4	2026 T3

Source: STATEC (forecasts as at 05/02/2025)

* These forecasts include an increase in theCO2 tax of EUR 5/tCO2 in 2025 and 2026.

** Average prices including VAT for a residential customer in Luxembourg with an annual consumption of 2,426 m3 of gas and 3,901 kWh of electricity. These prices are calculated on the assumption that i) for gas and electricity: network usage tariffs are kept constant at their 2025 levels, ii) from 2026, the contribution to the compensation mechanism returns to its 2021 value (before the energy crisis), i.e. 0.0363 EUR / kWh.

Two alternative energy price scenarios

Two alternative scenarios are based on historical deviations in electricity and gas tariffs and the price of Brent crude oil (the latter being reflected in the price of diesel, petrol and heating oil). Taking into account the measures in place (and in particular a fixed price for electricity in 2025), the high and low scenarios for electricity differ only for the year 2026. The high scenario assumes that in 2026, electricity, gas and Brent crude will rise by 32%, 1% and 13% respectively. The low scenario anticipates a smaller increase in the price of electricity (+5%) and a fall in the price of gas (-13%) and Brent (-21%) in 2026.

In all cases, the next indexation would take place in the 2nd quarter of 2025. In the high scenario, the next indexation would take place in the 4th quarter of 2025, followed by another in the 3rd quarter of 2026. The low scenario does not include any additional indexation between now and the end of 2026.

For further information

Press Office | **+352 247-88455** | press@statec.etat.lu

statistiques.lu

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