

Tax revenues increased by 7.2% in 2022

Tax revenues in Luxembourg in 2022 were boosted by the effects of high inflation on VAT revenues, household taxes and social contributions. Revenues from subscription tax and excise duties, on the other hand, stalled in the second and third quarters due to the fall in the value of assets on stock markets and lower fuel sales.

After recovering 16% in 2021, tax revenues increased by 7.2% in 2022, with more than EUR 21 billion collected¹. The inflationary surge boosted VAT receipts [+12% between 2021 and 2022], but also household taxes [+10%] and social security contributions [+8% over one year at the end of the third quarter]². Wage growth – with two index brackets in October 2021 and April 2022 – and employment growth [+3.6% year-on-year at the end of the third quarter] pushed up taxes on wages and salaries by 11% year-on-year. Rising prices and wages made up 60% of the increase in household taxes [+4.3% in real terms] and VAT revenues [+5.6% in real terms]. Total tax receipts adjusted for price changes [deflated by the sliding wage scale] thus rose by only 1.4% year-on-year.

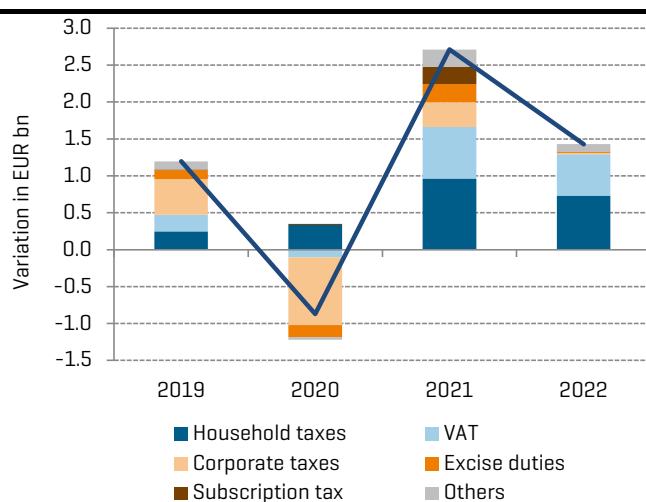
Corporate taxes were almost flat [+0.5% year-on-year] due to a sharp decrease in tax balances over previous years [-37% year-on-year at the end of October] while advances – which are more dependent on current economic activity – increased by 11%. The decrease in balances is partly related to the introduction of automatic taxation [mandatory from the 2017 tax year].

The subscription tax – which is levied on assets under management of undertakings for collective investment and specialised investment funds – was affected by the stock market downturn in 2022. The stabilisation of revenue collected from this tax [+0.04% in 2022 after +22% in 2021] masks strong volatility over the year. Receipts increased in the first quarter [+3.4% quarter-on-quarter] and then fell over the last three quarters due to declining fund asset valuations [-6% in Q2, -7% in Q3 and -2% in Q4].

Decline in excise duties from fuel

While excise revenues from tobacco continued to rise in 2022 [+16% year-on-year], those from oil products fell by 11%. This decline is linked to the sharp rise in fuel prices which led to temporary reductions in excise duties in Luxembourg³ and neighbouring countries. Various discounts [in terms of amount and duration] temporarily reduced or even reversed the differences in prices at the pump between Luxembourg and neighbouring countries, resulting in a drop in fuel sales [-10% over one year for petrol and -20% for diesel between June and October 2022].

EVOLUTION OF TAX RECEIPTS [EXCL. SOCIAL SECURITY CONTRIBUTIONS]



Sources: Tax authorities, STATEC (cash-basis data)

Prices in Luxembourg became more attractive again in November, boosting fuel sales and related excise duties [+1.1% between the third and fourth quarters].

Lower revenue growth in 2023

Tax revenue growth is expected to slowdown in 2023 [+5.8% year-on-year] according to the latest STATEC forecast⁴. The slowdown in inflation, the lower VAT rates under the second tripartite agreement and a deteriorating outlook for growth are set to weigh on public revenues.

The rate cuts, combined with the expected slowdown in growth, inflation and per capita consumption, will put a particular strain on VAT. Household taxes and social contributions [+10.7% and +8% in 2023 respectively] should continue to be boosted by scheduled index brackets but could be affected by weaker employment growth. The economic slowdown should also limit corporate tax receipts [+2.5% in 2023, compared to average growth of 5% per year between 2006 and 2021].

¹ Cash-basis data.

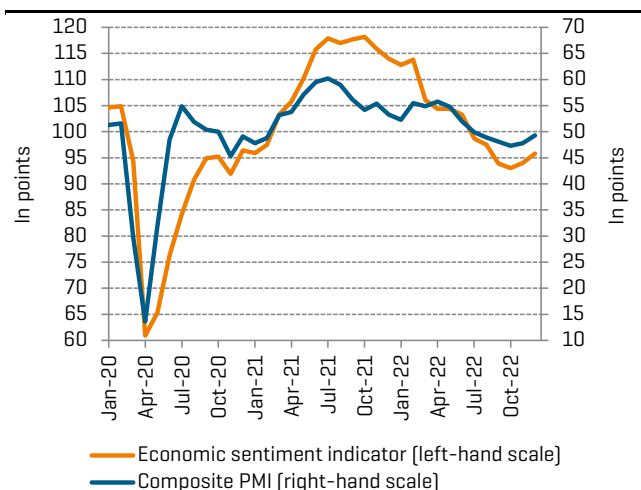
² Social contributions are calculated according to the ESA2010 approach. Fourth-quarter contributions will be available in March.

³ The government reduced fuel prices by EUR 7.5 cents per litre through a reduction in autonomous excise duties from mid-April to the end of August.

⁴ See Note de conjoncture 2-2022. The forecasts are compiled using the ESA2010 transaction-based accounting approach, i.e. revenue and expenditure are linked to the period in which they are generated and not to the time they are collected [cash-basis data presented in the previous section].

International

CONFIDENCE INDICATORS IN THE EURO AREA



Sources: European Commission, IHS Markit

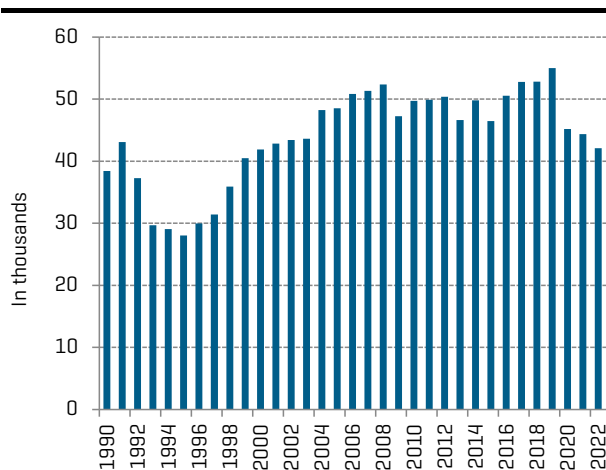
Less contraction in euro-area activity

Business survey results improved in the euro area as a whole in the final months of 2022. After six consecutive months of decline, the composite purchasing managers' index (PMI survey) rose again in November and December, a trend that was noticeable in both industry and services. However, it remains below 50 points, indicating a further (but less pronounced) contraction in activity. These results point to a decline of 0.2% in euro-area GDP over a quarter in the fourth quarter. A recession – if the GDP decline further in Q1 2023 – remains likely but the extent of this may be less pronounced than previously expected.

The European Commission's Economic Sentiment Indicator (ESI) has also been recovering since November at euro-area level, driven by more optimistic opinions across all economic sectors as well as among consumers. The improvement is not as marked in the Luxembourg surveys, particularly for the industrial and construction sectors.

Consumption

NEW REGISTRATIONS OF PRIVATE CARS IN LUXEMBOURG



Source: SNCA

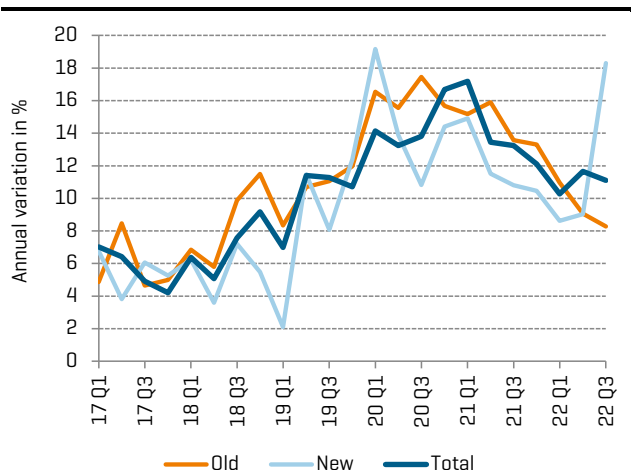
Car sales bottom out in 2022

In 2022, new car registrations declined for the third consecutive year, both in Luxembourg and in the euro area as a whole (with a similar magnitude of decline, around 5% compared to 2021). Only 42,000 new registrations were recorded over the past year, close to the numbers seen in the early 2000s (while in the meantime the population has increased by more than 40%).

While sales fell sharply in 2020 at the start of the pandemic, the declines in 2021 and 2022 were mainly due to the global shortage of electronic chips needed to equip vehicles. This shortage is easing, notably due to lower demand for electronic devices (smartphones and computers in particular were in high demand during the health crisis), but remains significant for certain specific types of chips. Production in the European automotive industry has thus been on the rise again since spring 2022 and registrations have risen since the summer. In the fourth quarter of 2022, registrations rose 7% year-on-year in Luxembourg and 15% across the euro area (due in particular to a 30% rise in Germany).

Real estate

SALES PRICES FOR HOUSING



Source: STATEC – hedonic price indices

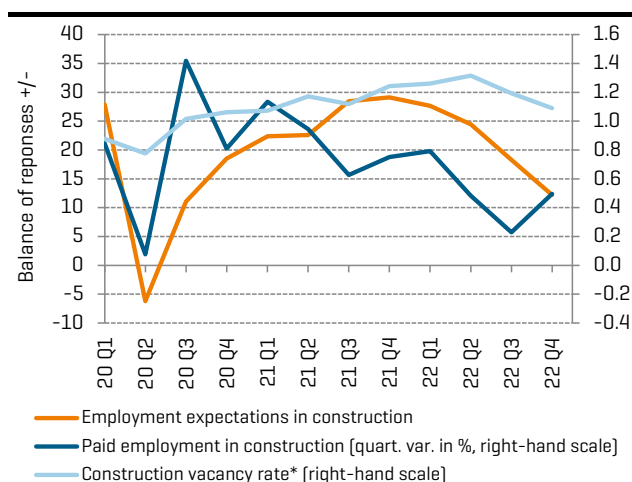
Signs of a slowdown in housing prices

Residential real estate prices rose 11.1% per year in the third quarter of 2022. Although still historically high, price growth is slowing, particularly for older properties. Prices for new housing, on the other hand, soared in the third quarter but this was due to technical effects. According to Observatoire de l'Habitat, the increase was mainly due to a change in contracts for new, unfinished housing, which now have higher sales prices that factor in expected cost increases instead of being indexed to construction prices. Construction services prices are still accelerating (a record +15.9% rise year-on-year in Q4), which should bolster new housing prices.

A slowdown in house prices is also being observed in many other euro-area countries, with common factors at work. High inflation and the subsequent rise in interest and mortgage rates are putting pressure on financing capacities and reducing the relative attractiveness of investing in residential property.

Labour market

CONSTRUCTION EMPLOYMENT INDICATORS



Sources: STATEC, IGSS, ADEM, seasonally adjusted data

* Job vacancies / Vacant and occupied jobs (in %)

Gloomier outlook for construction

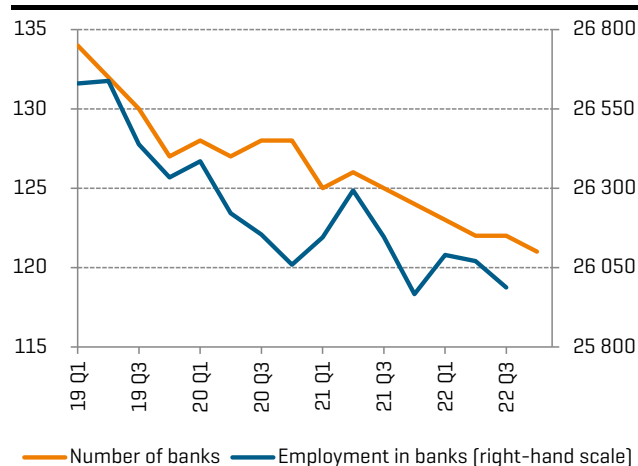
While employment has been slowing since Q2 2022, the year ended on a rather positive note, with employment growth of +0.8% quarter-on-quarter in Q4, up from +0.7% in Q3. Trade and transport in particular – but also construction and accommodation and food service activities – created more jobs at the end of the year.

Nevertheless, construction is one of the sectors where the slowdown has been most marked over the past year. In 2022, the construction workforce grew only 2.5% year-over-year (+2.0% in Q4), down from +3.7% in 2021. In the business surveys, construction contractors have been reporting an ongoing deterioration in orders since March 2022 [25% considered that demand was insufficient at year-end] and a less favourable employment outlook. Construction job offers reported to ADEM – which reached a record high in the second quarter of 2022 – continued to decline in the fourth quarter.

Construction output figures confirm this less buoyant climate, falling 8.1% over one month in October in the Grand Duchy, the most pronounced decline in the EU.

Financial sector

BANKS IN LUXEMBOURG: NUMBER OF ENTITIES AND EMPLOYMENT



Source: BCL

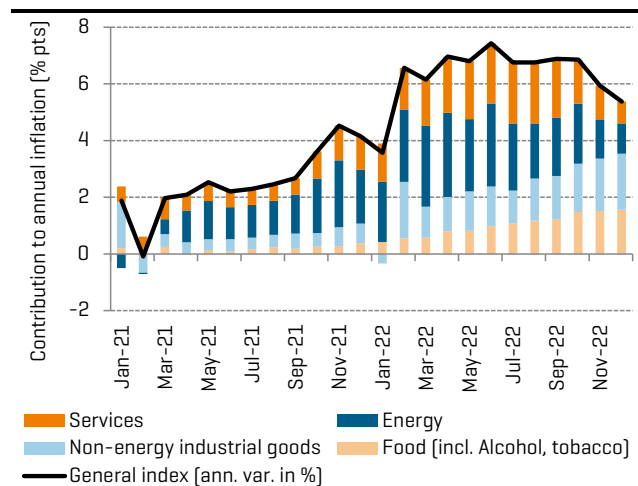
121 active banks in Luxembourg

The number of banks operating in Luxembourg decreased from 124 institutions at the end of 2021 to 121 at the end of 2022. Russian bank RCB Bank Ltd ceased its banking activities in June due to geopolitical risks to its operations following Russia's invasion of Ukraine. J.P. Morgan Bank merged its Irish and Luxembourg operations into a single legal entity in Frankfurt, changing its status in Luxembourg to that of a branch of its German parent company. In addition, two banks were registered and four institutions withdrew from the market. The majority of banks operating in Luxembourg are German [23 entities], Chinese [15], French [12], Swiss [12] and Luxembourgish [10]. They are mainly specialised in fund management, corporate finance and private banking.

Fifty banks increased their workforce in Q3 2022 [227 jobs created] while 47 banks reduced their workforce [310 jobs lost]. Year-on-year, employment in banks fell slightly [-0.6% year-on-year or 160 jobs less]. On the other hand, the amount of assets under management by banks continued to grow strongly [+9.5% year-on-year in Q3].

Inflation

BREAKDOWN OF INFLATION IN LUXEMBOURG



Source: STATEC

Note: the volatility of inflation at the beginning of 2021 and 2022 is due to the postponing of winter sales

Slowdown in energy and services prices

Inflation is showing first signs of slowing in Luxembourg. It has fallen to its lowest level since January 2022 – down to 5.4% year-on-year in December 2022. However, the decrease is not generalised: since the second half of 2022, energy and service prices have slowed, while prices for food and non-energy industrial goods have accelerated.

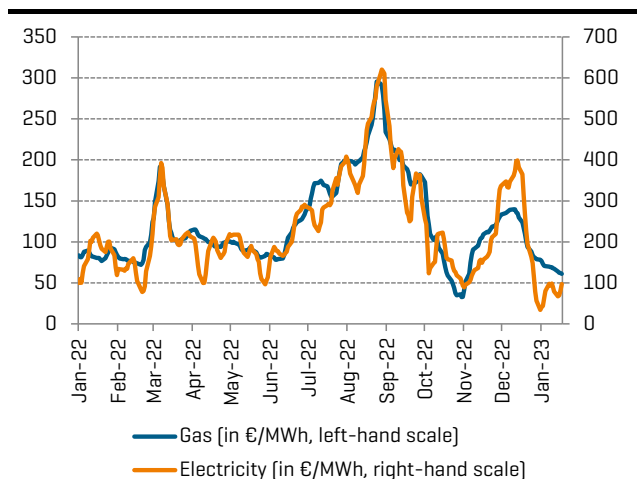
Energy prices have fallen because of the drop in the price of Brent crude oil [since the summer] and also tripartite measures limiting the increase in the price of gas to +15% and reducing the price of heating oil by 15 cents per litre. On the services side, the fall in prices was mainly due to canteens [an extension of free in schools, -38% over one year in December] and daycare centres [-24%], which together contributed -0.7 percentage points to inflation at the end of the year. Food inflation [11% year-on-year in December] and inflation in non-energy industrial goods remained high [6%], generating two-thirds of year-end inflation, compared to only one-third in the first half of 2022.

In the euro area, on the other hand, it is mainly energy prices that have fallen in recent months.

Energy

Gas prices ease

GAS AND ELECTRICITY SPOT PRICES



Source: Macrobond (moving averages over one week)

Despite a temporary rebound at the end of the year due to uncertainty about the severity of the winter in Europe, gas prices have been on a downward trend since August. The reason for this was a drop in gas demand because of the relatively mild 4th quarter and efforts to reduce energy consumption. On the supply side, even though Russian gas deliveries have been cut back sharply, the risk of a shortage no longer seems likely this winter. Gas stocks in Europe are at sufficiently high levels [83% on 1 January 2023 compared to 54% on 1 January 2022].

The decline in gas prices is directly reflected in the price of electricity due to the merit order mechanism of the European electricity market. As a result, the price of electricity in early January has remained around EUR 100/MWh for the first time since the summer of 2021.

These downward trends will be passed on to producer prices, which are strongly linked to spot prices. On the other hand, it will take much longer for them to be reflected in consumer prices.

Trend chart

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	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	-0.5	-1.4	-3.3	0.1	-1.9	1.2	-3.8	...	...	-1.5	2.5
Construction output per working day, in volume	-4.2	3.2	-5.0	-2.3	-0.6	0.6	-3.2	...	...	-1.1	-0.7
Turnover by volume of total retail trade	-5.9	-1.8	-4.1	0.1	-0.6	4.5	-2.3	-3.1	...	-0.5	1.0
Prices, wages											
Consumer price index (NCPI)	7.0	6.8	7.4	6.8	6.8	6.9	6.9	5.9	5.4	6.1	4.1
Underlying inflation	4.2	4.5	4.8	4.7	5.1	5.2	5.1	4.9	4.6	4.9	2.1
Oil product index	59.2	49.7	56.3	43.6	36.0	37.4	35.2	20.9	15.8	23.9	51.7
Industrial producer price index	30.3	32.8	30.1	29.7	25.9	22.4	22.5	21.2	...	22.0	23.2
Construction price index ¹	13.9	13.9	13.9	14.9	14.9	14.9	15.9	15.9	15.9	15.9	9.3
Average wage bill, per person (National accounts)	7.8	7.8	7.8	4.5	4.5	4.5	...	...	...	4.5	4.0
Foreign trade											
Exports of goods (volume)	-9.0	1.0	-2.8	-11.7	4.5	-1.3	0.4	0.6	...	-0.1	-2.7
Imports of goods (volume)	7.5	4.8	3.6	3.0	10.0	5.3	-5.2	7.3	...	2.1	5.7
Employment, unemployment											
Domestic number of employees	3.6	3.6	3.5	3.6	3.4	3.4	3.3	3.1	3.5	3.3	3.5
National employment	2.5	2.5	2.5	2.8	2.7	2.6	2.5	2.5	2.6	2.6	2.8
Unemployment rate [% of working population, seas. adj.]	4.7	4.7	4.7	4.7	4.8	4.8	4.9	4.9	4.8	4.9	5.2

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Eurozone - real GDP growth [European Commission]	2.0	2.2	0.5	0.6	0.9	0.3
Luxembourg - real GDP growth (STATEC)	0.6	-0.2	1.6	0.7	-0.5	1.1
	Annual variation in %					
	2018	2019	2020	2021	Forecast 2022	Forecast 2023
Luxembourg - real GDP growth (STATEC)	1.2	2.3	-0.8	5.1	1.7	1.5
GDP at current prices 2021: EUR 72 295 million						
Minimum monthly salary [since 01/01/2023]: EUR 2 387.40	Consumer price index [12/2022] - base January 1 st 1948: 964.07					
Current account balance [2022 Q3]: EUR 526 million	Half-yearly average of the index linked to base as at January 1 st 1948 [12/2022] : 963.77					
Resident population [01/01/2022]: 645 397	Estimated deadline for next salary indexation: 2023 Q1					

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