

Brussels, 3 March 1999

Commission assesses the Luxembourg stability programme

The European Commission has published a recommendation to the Council of Ministers on the Luxembourg stability programme. The recommendation was made in accordance with the new reinforced procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The Luxembourg stability programme covers the period 1999-2002 and envisages the maintenance of a budgetary surplus, throughout the period covered by the programme, projected at 1% to 2 ½ % of GDP in 2002. Moreover, the government gross debt to GDP ratio would continue to remain very low. The Commission considers that the envisaged objectives are in line with the Stability and Growth Pact requirements. The Commission believes that the structural measures announced in the programme are appropriate and in line with the Broad Economic Policy Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Luxembourg programme on 15 March 1999.

The Commission recommendation is adopted on the initiative of President Jacques Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic, monetary and financial affairs, as part of the procedures in the Stability and Growth pact for surveillance and co-ordination of national economic and budgetary policies at the level of the EU.

The Stability and Growth Pact, agreed by the Amsterdam European Council in June 1997, requires countries participating in the euro zone to present stability programmes to the Council and the Commission. These programmes aim to demonstrate how countries intend to meet the objectives of the Pact and in particular the medium-term goal of a budget close to balance or in surplus. The Commission's analysis considers in particular whether the medium-term budgetary target provides a sufficient margin for normal cyclical fluctuations without exceeding the reference value of 3% of GDP. The programmes cover the current year and at least three future years (the Luxembourg programme covers the period 1999-2002).

The Commission's main conclusions are the following:

- the programme presents plausible macroeconomic assumptions, under three alternative scenarios, projecting real GDP growth between 2.8% and 3.4% for 1999 and between 3.0% and 4.5%, on average, for 2000-2002; the growth objectives seem attainable taking account of past performance and the dynamism of the Luxembourg economy;

- the main objective of the stability programme is to ensure that the present healthy public finance position is maintained in the coming years; in all macroeconomic scenarios the general government accounts register a surplus ranging from 1% to 2 ½ % of GDP in 2002;
- the government intends to continue the strategy of sound public finance management and structural reform in order to enhance the efficiency and performance of the economy and ensure the achievement of the objectives of the programme; moreover, is ready to take the necessary measures to ensure that the budgetary targets are met even if economic growth is weaker than projected;
- the Commission considers that Luxembourg should continue to monitor expenditure growth, in particular social security spending, in order to maintain sound public finances and to meet the budgetary pressures resulting from the ageing population;
- the Commission welcomes the structural reforms in the programme which include active employment policies, action to promote equal opportunities, development of enterprise initiative and vocational training.

Key figures from the Luxembourg stability programme

<i>(% change with respect to previous year unless otherwise mentioned)</i>	1998	Scenarios	1999	2000	2001	2002
Real GDP growth	5.7	High	4.0	4.5		
		Medium	3.4	3.7		
		Low	2.8	3.0		
General government net lending (+) or borrowing (-) (in % of GDP)	2.1	High	1.2	1.5	1.9	2.5
		Medium	1.1	1.2	1.3	1.7
		Low	0.9	0.8	0.7	1.0
Inflation (CPI)	1.0	-	1.2	1.7		
Number of wage-earners	4.5	High	3.0	3.0		
		Medium	2.4	2.2		
		Low	1.8	1.5		
Unemployment rate (in % of active population)	3.1	High	3.0	2.9		
		Medium	3.1	3.1		
		Low	3.2	3.4		