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Commission assesses updated Stability Programme of Luxembourg

The European Commission today adopted a Recommendation to the Council of Ministers on the updated stability programme of Luxembourg (1999-2003). The Commission concluded that the updated stability programme is in full respect of the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. The updated stability programme conveys the commitment of the new Luxembourg government to continue the sound public finance policies followed until now and to pursue the implementation of structural reforms. The updated programme, building on better budgetary results than initially expected in the past two years and on prospects for high rates of economic growth, is projecting more ambitious budgetary outcomes than the initial stability programme. The budgetary projections of the updated programme are based on the assumption that real GDP growth will reach around 4.5 % per year from 2000 to 2003; this macroeconomic assumptions seems realistic considering the strong economic performance achieved in the last years. The general government surplus is expected to rise to 2.5% of GDP in 2000 and to 3.1% in 2003. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal opinion on the updated Luxembourg programme on [13 March 2000].

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The Luxembourg updated programme was submitted on 18 February 2000.

The Commission's Recommendation highlights the following:

- The Luxembourg economy is estimated to have grown at 4.9% in 1999, while forecasts for 2000 point to growth rates above 5%. Real GDP growth is assumed to reach around 4.5 % per year from 2000 to 2003.
- The general government surplus in Luxembourg in the past two years exceeded the estimates and projections of the initial stability programme. The general government surplus for 1999 is estimated now at 2.3% of GDP compared to 1.2% in the initial stability programme.

- The updated programme is projecting surpluses in the general government accounts throughout the period of the updated stability programme, rising from 2.5% of GDP in 2000 to 3.1% in 2003.
- Improved public finances would allow building-up substantial reserves at State and social security levels. Reserves within the social security system are projected to rise to 25.3% of GDP in 2003.
- A key element of the public finance strategy is control of central government expenditures which are expected to increase, at a maximum, as fast as a predetermined measurement of nominal GDP.
- Control of government current expenditure would allow increasing in the share of government investment in total spending as well as a reduction in the tax burden.
- The projected budgetary position of general government throughout the period of the programme provides adequate safety margin for not exceeding the 3% of GDP threshold in normal circumstances and thus is in line with the requirements of the Stability and Growth Pact.

I. *KEY FIGURES OF THE LUXEMBOURG STABILITY PROGRAMME*

	1999	2000	2001	2002	2003
Real GDP growth (annual % change)	4.9	4.3	4.4	4.5	4.6
Gen. Gov. budget surplus (% of GDP)	2.3	2.5	2.6	2.9	3.1