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Commission assesses the 2000 update of the stability programme of Luxembourg (1999-2003)

The European Commission made today a recommendation to the Council on the 2000 updated stability programme of Luxembourg, which was presented on 16 February 2001 and covers the period 1999-2003. The conclusion of the Commission is that the updated programme is in line with the requirements of the Stability and Growth Pact and is consistent with the Broad Economic Policy Guidelines. Remarkable growth performance in the last two years was reflected in stronger than expected general government net lending reaching 4.4% of GDP in 1999 and an estimated 3% of GDP in 2000. From 2001 to 2003, the general government surplus, still clearly positive is expected to decline to around 2 ½ of GDP per year, as a result of a broad tax reform to be implemented in 2001 and 2002. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the stability programme of Luxembourg on [12 March 2001].

The Commission recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the member states' stability programmes is an important element in the multilateral surveillance process. Given the continuous improving of economic policy co-ordination in the Union and the important spill over effects that economic policies in one member state can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which member states plan to conduct their economic policies over the short and medium term. An assessment of how member states plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis".*

The Commission main conclusions are the following.

- The updated stability programme of Luxembourg is in line with the requirements of the Stability and Growth Pact.
- As a result of the tax cuts included in the tax reform to be implemented in 2002 and 2003, the government surplus is expected to decline from 3.0% of GDP in 2000 to 2.6% of GDP in 2001, while remaining clearly positive at around 2 ½% of GDP in the period 2001-2003.
- The appropriateness of such a fiscal impulse in a fast growing economy when wage increases are already accelerating is questionable, although the extreme openness of the economy and the large pool of available workers in the surrounding regions mitigate potential overheating risks.

- The expected reduction of their ratio to GDP by 2 percentage points over the period 2000-2003 will largely result from fast growing nominal GDP. In fact government expenditure is increasing throughout the period covered by the programme.
- A large part of the projected expenditures will be devoted to public investment or will support policies aimed at improving the efficiency of the economy and social infrastructures.
- However, the Luxembourg government should monitor closely developments and be ready to limit expenditure increases, should economic growth falter under unforeseen circumstances.
- Indebtness of the general government is most favourable at 6.0% of GDP in 1999 and is expected to remain low but more information about debt developments should be provided in the future.

The Stability and Growth Pact, adopted 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 provide information on 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.

Key figures of the Luxembourg stability programme

	1999	2000	2001	2002	2003
Real GDP growth (annual % change)	7.5	8.3	5.2	5.3	5.8
Inflation (national CPI : annual % change)	1.0	3.1	2.2	1.7	2.0
Number of wage & salary earners (annual % change)	5.3	5.8	4.0	4.0	4.4
Nominal compensation per head (annual % change)	3.1	5.0	3.8	3.4	3.6
General Government expenditure (% of GDP)	42.9	41.1	39.8	39.1	38.8
General Government revenues (% of GDP)	47.3	44.1	42.6	41.6	41.2
General Government balance (% of GDP)	+ 4.4	+ 3.0	+ 2.6	+ 2.5	+ 2.5