Annual assessment of the implementation of stability and convergence programmes

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PURPOSE : to present the Council's opinion on the updated stability programme of Luxembourg 2000-2004. CONTENT : the Council notes that the sound management of public finances continues to be the guiding principle of the 2001 update. The budget strategy of the updated programme is based on continued net lending position of general government, a balanced budgetary position of central government and rise in ordinary expenditures lower than the overall budget. In 2000, real GDP growth was particularly strong, at 8.5% driven by dynamic domestic demand and buoyant exports; in 2001, despite the general economic slowdown entailed by external factors, economic growth in Luxembourg remained relatively robust at around 4%. Real GDP growth is projected to accelerate in 2002 and remain strong in the following two years covered by the programme. General governmental surplus reached 6.2% of GDP in 2000, clearly above that projected in the 2000 update, resulting in buoyant tax revenues which more than compensated significant increases in expenditure decelerating activity and the effects of the tax reform are expected to lower the government surplus in 2001. The current expenditures of central government continued to grow rapidly in 2001 and are expected to accelerate to 10.5% in 2002, faster than the total budget expenditure; although the situation of public finance in Luxembourg is extremely sound, the rigidity of current expenditure acknowledged by the update itself might become a factor of risk should growth slow significantly in the medium term. The Council commends the continued orientation of government expenditure towards investment spending aimed at improving the infrastructure, the technological level of activities and human capital. It welcomes the reduction of the tax burden through the implementation of tax reform while maintaining sound budgetary position. Lastly, the Council notes that Luxembourg is in a good position to meet the budgetary consequences of ageing population. However, readiness to adapt policy in case of adverse developing is required. The Council notes the very low level of government debt ratio in Luxembourg, resulting from healthy public finances and budgetary surpluses over a number of years.