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*(Information)***COUNCIL****COUNCIL OPINION****of 22 January 2002****on the updated stability programme of Luxembourg, 2000-2004**

(2002/C 33/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community;

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 22 January 2002 the Council examined the updated stability programme of Luxembourg, which covers the period 2001-2004.

The Council notes that sound management of public finances continues to be the guiding principle of the 2001 update; the budgetary 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.

The Council notes that the general governmental surplus reached 6,2 % of GDP in 2000, clearly above that projected

in the 2000 update, resulting from 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; overall, the projected budgetary surplus over the period of the programme is somewhat higher than in the 2000 update, due to better initial conditions and improved growth prospects from 2003 onwards. The public finance projections presented in the 2001 update to the stability programme of Luxembourg are thus in compliance with the requirements of the stability and growth pact as the government's budgetary position remains close to balance or in surplus all along the period covered.

The Council notes that 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 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.

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 developments 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.

⁽¹⁾ OJ L 209, 2.8.1997.