GRAND DUCHY OF LUXEMBOURG
MINISTRY OF FINANCE

SECOND UPDATE OF THE LUXEMBOURG STABILITY PROGRAMME

December 2000

Introduction

In accordance with Council Regulation (EC) No 1466/97, Luxembourg presented its first stability programme to the Council and the Commission at the beginning of 1999. The Ecofin Council discussed the programme on 15 March 1999.

An initial update, prepared following the change of Government and just after the adoption of the Finance Act for 2000, accorded with the recommendations made in the broad economic policy guidelines and followed on from the first programme. It was sent to the Council and the Commission in February 2000 and was discussed by the Ecofin Council on 13 March 2000.

As the Economic and Financial Committee decided that the next annual revision should be submitted without fail before the end of the current year, this second update has been drawn up only ten months after the first. By Regulation (EC) No 1466/97, it must cover at least the period 1999-2003. It brings up to date all the data to be found in the previous revision, taking account of the developments that have occurred during the year. Obviously, the figures for 2000 are not definitive, as the year has not yet ended.

This update of Luxembourg's stability programme, which comes at the same time as the adoption of the public sector budget for 2001, is affected by the tax reforms agreed and proposed by the Government for 2001 and 2002.

The update has been approved by the Cabinet and has been laid before the Chambre des Députés.

The updated programme can be consulted at the Finance Ministry's website: http://www/etat.lu/FI/

I. ECONOMIC CLIMATE

Trends in the Luxembourg economy in 2000

Overview

	1999	2000	2001	2002	2003
			Percentage change unless otherwise specified		
Final consumption of households (volume)	4.1	3.5	4.5	3.7	3.9
Final public consumption (vol.)	12.8	4.9	3.6	3.9	4.2
Gross fixed capital formation (vol.)	26.9	0.0	7.4	5.6	6.9
Exports of goods and services (vol.)	7.5	14.8	6.5	8.0	9.1
Imports of goods and services (vol.)	11.3	11.0	6.7	7.6	9.0
GDP (vol.)	7.5	8.3	5.2	5.3	5.8
GDP (LUF billion)	731.8	810.0	872.1	938.4	1 012.2
Payroll employment	5.3	5.8	4.0	4.0	4.4
Inflation (consumer prices)	1.0	3.1	2.2	1.7	2.0
Average nominal wage costs	3.1	5.0	3.5	3.4	3.6
Unemployment rate (% of working population)	2.9	2.7	2.6	2.6	2.5

Source: STATEC

The world economy will have had an excellent year in 2000. GDP growth in EU 15 was close to 3½%, a level that has not been reached since the start of the 1990s. The Luxembourg economy has benefited substantially from this, since growth has exceeded 8%. However, the European economies will have probably passed a cyclical peak in 2000, and 2001 will be marked by an albeit fairly slight change of direction in the business cycle.

According to STATEC's latest calculations, Luxembourg's GDP grew by 8.3% in volume in 2000. This was a remarkable performance, given that average growth in 1995-99 was 5.4%. It is due primarily to the very large rise in exports (+15% in volume), which is linked of course to the very favourable short-term international environment.

Domestic demand will have been less dynamic than in 1999, largely because the exceptional factors which stimulated it in 1999 (purchase of aircraft, reckoned as GFCF, and introduction of care insurance, reckoned as public consumption) will have disappeared. The growth of private consumption (+3.5%) will have been slightly less than the average since 1995 (3.7% in volume), possibly as a result of the loss of households' purchasing power caused by the rise in oil prices.

Compared with 1999, all sectors participated in the strong growth: manufacturing activity will have been particularly dynamic (gross value added up by 9% in volume), after a fairly mediocre 1999. However, transport and telecommunications, plus the financial sector, will have once again been the locomotives of the Luxembourg economy, together accounting for growth of 4.7% (total growth of GDP = 8.7%).

Domestic payroll employment again grew at a faster rate, which reached an annual average of 5.8%. This increased demand for labour is met very largely by resident workers of non-Luxembourg origin: either frontier workers or immigrants.

Unemployment, which was largely structural or frictional, continued to fall, reaching an annual average of 2.7%. The strong rise (+10%) in the number of persons placed on training or work schemes certainly contributed to this.

Inflation, as measured by the consumer price index (IPCN), rose sharply in 2000: the annual average was 3.1%, compared with 1% in 1999. This acceleration is due in large part to soaring oil prices, which, as combined in the IPCN, went up by some 30% during the year. At the same time, underlying inflation, which measures the basic trend of prices, went up from 0.9% to 1.8% (on an annual average).

The rise in wages was affected by accelerating inflation, through the operation of automatic indexing in August 2000. Thus the growth of average nominal wage costs will be some 5%, after 3.1% in 1999.

Economic forecasts 2001-03

International climate

The main international organisations (OECD and the EU Commission) expect growth to continue in Europe, but at a more sustainable rate than in 2000. Thus, after growing at some 3½%, GDP will fall back to 3%, or even slightly less, in 2001 and 2002. The main reasons for this slowdown are the loss of households' purchasing power caused by the rise in oil prices, and the braking effect of interest-rate rises in 2000. Inflation (as measured by the consumer price index) stabilises at slightly over 2%, before falling back again subsequently.

National forecasts

During the period 2001-03 the Luxembourg economy will grow on average at close to the rate observed in recent years, i.e. at some 5.5%.

In 2001 the slowdown will be caused in particular by weaker export growth. Private consumption, however, will play a reinforcing role (as household taxation will be lower), provided it is directed at domestic production.

It should be noted that the growth of the Luxembourg economy depends crucially on that of the financial sector as a whole. For 2001, STATEC is currently predicting that this sector will grow in volume by some 6%, as against an average of more than 8% between 1995 and 1999 and a (provisional) 13.5% in 2000. If the financial sector's performance in 2001 should match that achieved in 2000, a significant upward revision of GDP growth forecasts will be required.

Consumer price inflation will slow down considerably in 2001, falling to an annual average of some 2.2%. This will be due to a slight fall in oil prices (-0.5%) and a stabilisation of underlying inflation. There will be an additional slowdown in 2002 (following a further fall in oil prices); as measured by the IPCN, inflation will decline to 1.7% in 2002 and will not exceed 2% in 2003.

The growth of nominal wages will remain at between 3% and 4% throughout the forecast period, as a result in particular of the indexing mechanism, which will be triggered on two occasions

(2nd quarter 2001 and 3rd quarter 2002). Wage inflation remains under control, however, and is not likely to threaten firms' competitiveness during the first three years. Average real wage costs go up at the same rate as - or even more slowly than - labour productivity (in real terms). There is no danger of the economy overheating, as the forecast growth of remaining GDP does not exceed the potential growth of GDP as calculated by the Commission's staff.

Over the forecast period (2001-03), the wage share (total wage bill as a proportion of nominal GDP) will rise slightly (by 0.3%). This may be regarded as catching up to some extent, since the wage share actually declined during 1995-2000.

As growth in the Luxembourg economy is still strong, net job creation will stay at a high level. In 2001 the increase in payroll employment will ease to 4%, but will rise to 4½% in 2003. These trends are more sustainable in the medium term compared with those in 1999 and 2000, which were two exceptional years. Only a slight fall in the national unemployment rate (registered job seekers) will be possible; this will reach 2.5% in 2003 (compared with 2.7% in 2000).

Detailed forecasts

	1998	1999	2000	2001	2002	2003
	LUF billion , 1995 prices				volume growth rate	
GDP	624.0	7.5	8.3	5.2	5.4	5.8
Final consumption of households	285.8	4.1	3.5	4.5	4.2	4.0
Public consumption	104.2	12.8	4.9	3.6	3.9	4.2
Gross fixed capital formation (inc. changes in stocks)	127.7	26.9	0.0	7.4	5.6	6.9
Exports of goods and services	722.8	7.5	14.8	6.5	8.0	9.1
Imports of goods and services	619.7	11.3	11.0	6.7	7.8	9.0
	LUF billion,current prices				growth rate	
GDP implicit price deflator	.	2.6	2.2	2.3	2.1	2.0
Consumer price index (IPCN)	.	1.0	3.1	2.2	1.7	2.0
Wage indexation (sliding scale)	.	1.0	2.7	2.7	1.7	1.9
Average nominal wage costs	.	3.1	5.0	3.8	3.4	3.6
Payroll employment	.	5.3	5.8	4.0	4.0	4.4
Unemployment rate (national definition)	.	2.9	2.7	2.6	2.6	2.5
Wage bill	337.3	8.6	11.1	8.0	7.6	8.2
Operating surplus of enterprises	319.4	12.2	10.3	7.3	7.6	7.6

Source: STATEC

II. GENERAL OBJECTIVES OF BUDGETARY POLICY

Overall trend of the budget for 2001

The 2001 budget is the first Luxembourg budget to be drawn up entirely in euros.

The approved budget for 2001 is as follows:

	Approved draft budget 2001
Current budget	
Receipts	*5,4*
Expenditures	*4,6*
Surplus	*+0,8*
Capital budget	
Receipts	*0,0*
Expenditures	*0,8*
Surplus.	*-0,8*
Total budget	
Receipts	*5,4*
Expenditures	*5,4*
Surplus	*+0,0*

Note: EUR billion.

The basic budgetary policy stance underlying the government programme

The Government has based its approach to the overall modernisation of the 2001 budget on the following two sets of fundamental considerations:
(a) the multiannual budgeting principles underlying the government programme;
(b) the economic and budgetary policy guidelines of the Council of the European Union.

(a) The multiannual budgeting principles underlying the government programme
In its Statement of 12 August 1999, the Government stresses in particular that Luxembourg's prosperity can be maintained in the long and medium term only if the public sector succeeds in preserving the current equilibrium of the public finances, which provides a solid basis for the action which the new Government will take.
The Government stresses in this respect that the Luxembourg stability programme, which was approved unreservedly at European level, is consistent with the new European environment for monitoring and co-ordinating economic policies, since it is based on the following principles:

- public sector net lending should remain in surplus;
- the central government budget should remain in balance;
- the growth of government ordinary expenditure should be less than that of the overall budget.

The Government believes it is essential to respect these rules of conduct and to pursue a strict budgetary policy in order to preserve the current advantages of the country's financial situation.
It is essential, therefore, for the Government to maintain strict budgetary discipline and to see in particular that the increase in public sector expenditure does not, in the medium term, exceed the limits of economic growth.
It should be emphasised in this respect that the Government is committed to keeping the national debt at its very low level, and budget reserves and investment fund assets at their high level.
For reasons examined in more detail below, it should be noted at the outset that these budgetary policy guidelines have been comprehensively followed in the preparation of the 2001 budget.
The main features of the 2001 budget can be summarised as follows:
-public expenditure is fully under control;
-a balanced budget is presented, without additional indebtedness;
-the favourable short-term situation generates additional receipts, which, together with the control of public expenditure, enables the Government to propose substantial tax cuts;
-the funding of large-scale investment projects is ensured, because the main special funds have considerable resources.

(b) Final budget for 2000

In assessing the changes in expenditure from 2000 to 2001, it should be borne in mind that the approved budget for 2000 was amended by the Law of 28 July 2000 on the civil service pay agreement of 29 May 2000.

As a result of these amendments, the final budget for 2000 is as follows (as compared with the approved budget):

	Approved budget 2000	*Change*	*Final budget 2000*
Total receipts	*4,8*	*0,0*	*4,8*
Total expenditure	*4,8*	*+ 0,1*	*4,9*
Surplus	*+ 0,0*	*- 0,1*	*- 0,1*

Note: EUR billion.

According to the initial data for 2000, receipts will be higher than forecast in the 2000 budget, so that the outcome for 2000 will be a surplus.

Budgetary policy guidelines of the European Union

In its April 2000 Report on the Broad Economic Policy Guidelines of the Member States of the European Union, the Commission notes that "since early summer 1999, when the latest BEPGs were adopted, an increasingly robust and broadly-based economic recovery has taken hold in the Union. Under the combined impact of supportive macroeconomic policies, a competitive euro

exchange rate and buoyant global economic activity, the upswing is expected to gain further momentum this year and next".
The Commission also notes that, on these sound foundations, European policy makers face new challenges and opportunities in the coming years and beyond. The key challenges consist of the return to full employment, the transition to a knowledge-based economy, the impact of a rapidly ageing population and the improvement of social cohesion. All Member States are confronted with these challenges, but there are marked differences both in the extent to which countries are exposed to them and in the degree to which they have already prepared themselves.
In the Commission's view, "innovation and accumulation of knowledge are increasingly becoming key drivers of competitiveness, economic growth, employment and standards of living. Yet, the Union lags behind the United States in terms of innovation capacity, with the gap having increased since the mid-1990s, and the production and diffusion of information and communication technologies".
In a section devoted to improving the quality and viability of public finances, the Commission considers in particular that Member States should:
- improve budgetary positions through expenditure restraint rather than through tax increases;
- introduce or enhance the mechanisms and institutions that help control spending so that taxes could be cut without jeopardising the achievement or maintenance of healthy budgetary positions;
- restructure government spending in favour of investment in physical and human capital, R&D, innovation and information technology and in favour of expenditure on active labour market policies in accordance with the Employment Guidelines.
As far as Luxembourg in particular is concerned, the Commission notes that GDP growth was particularly fast in 1999 despite unfavourable external developments and is expected to remain strong. Unemployment remains very low and there are some upward pressures on inflation.

As to budgetary policy, the Commission observes that, owing to fast economic growth and the resultant buoyancy of budget receipts, Luxembourg's public finances have more than once recorded a comfortable surplus in recent years. Budgetary policy should therefore seek to:

- monitor closely current government expenditures in order to facilitate the achievement of the budgetary objectives while making room for a reduction in the tax burden as planned in the updated stability programme; and
- combine the implementation of sound public finance policies with reforms, notably in the field of social security, that are needed in order to maintain the long-term viability of the system and prepare for the challenge of an ageing population.
With regard to these budgetary policy recommendations of the European Union, it should be noted that the Luxembourg budget for 2001 accords fully with the general and specific guidelines laid down by the Council of the European Union for the preparation of public budgets for 2001.

Trend of government receipts and expenditures

The approved expenditure budget for 2001 is up by 11.9% (9.3% for current expenditure) compared with the final expenditure budget for 2000, while the approved receipts budget shows an increase of more than 13%.
In assessing the rate of increase of the receipts side, account should of course be taken of the significant tax reduction measures which the Government will introduce from the start of 2001.

On current forecasts, this reform will reduce the overall burden by some EUR 247.9 million, the Tax on Salaries and Wages alone accounting for EUR 198.3 million in 2001.
If this loss of revenue is disregarded, the increase in total receipts between the final budget for 2000 and the approved budget for 2001 is more than 17%. It should be noted in this respect that, given the surplus receipts in the two previous financial years and the favourable economic situation, the Government has considered that it can enter a larger increase in receipts in the 2001 budget than in the past.
The current expenditure budget for 2001, which combines the nation's current and standing charges, shows an increase of 9.3% compared with the final budget for 2000.
As to the capital expenditure budget, to which primarily the funding of social overhead capital investments is charged, the appropriations proposed for 2001 are, exceptionally, 29.5% higher than in the final budget for 2000.
In accordance with the undertakings reiterated by the Government in connection with the stability programme, the growth of capital expenditure, therefore, significantly exceeds the increase in total current expenditure.
According to the Government's Statement, budgetary policy - as the expression of the Government's major policy choices - gives high priority to expanding public sector investment expenditure. Public investment is a priority objective of budgetary policy and of government policy as a whole.
The 11.9% increase in total budget expenditure in 2001 is due – as in previous years - partly to the need to include a large number of expenditures created by existing laws or agreements and having a considerable additional impact on the 2001 budget, but partly also to the Government's clear determination to allocate substantial tax receipts to boosting the resources of the main special funds in order mainly to finance large-scale investment projects.

Overall equilibrium of the budget

As can be seen from the summary table at the beginning of this section, the approved budget for 2001 is in balance, assuming that no additional debt is incurred.
Given the trend of tax receipts and the control of current expenditure, the 2001 budget does not provide for any new borrowing, either for the budget proper or for financing road fund expenditure.

Main aims of budgetary policy

In accordance with the general direction of its budgetary and financial policy, the Government has succeeded in the present budget in reconciling overall control of public sector expenditure and the granting of additional financial resources for the achievement of certain basic priorities.

- Reducing the overall tax burden
In its Statement of 12 August 1999, the Government emphasised that fiscal policy would continue, firstly, to be a basic means of consolidating and strengthening the competitiveness of Luxembourg firms and of Luxembourg as a place for expanding existing activities and locating new ones and, secondly, to be a means of promoting social justice based on the ability to pay principle and respect for individual effort.
As regards direct taxes on households and sole traders, the Government has undertaken to reduce the tax burden by much more than a full adjustment for inflation. The reduction will include a

component for structural adjustments in the tax scales. This component will be based *inter alia* on a thorough examination of the individual effectiveness of the many existing reliefs in the light of the general proactive thrust of the Government's overall policy.

In its Statement of 12 August 1999, the Government proposes to lower the effective rate of local government taxation from the current 37.5% (the aggregate rate for the tax on local government revenue, the municipal business charge on operating profits and the solidarity tax) to under 35%.

It should be noted in this respect that the burden of local government tax has been substantially reduced since 1997, as a result mainly of abolishing the municipal business charge on operating capital and lowering the rate for the tax on local government revenue from 33% to 32% from 1997 and from 32% to 30% from 1998.

As regards personal income tax, the Government, at the same time as finalising the draft budget for 2001, has decided to lay before the Chambre des Députés a proposal for a large-scale reduction in this tax from the start of 2001.

This reform proposal is an extension of the tax reform contained in the Law of 17 November 1997 amending certain provisions concerning the rates of personal income tax.

The main measures carried out on that occasion were as follows:

1.- a linear reduction of 4 percentage points in the marginal rate of tax by income band, with an initial rate of 6% and a maximum rate of 46%;

- raising the threshold for marginal rate from EUR 6 038.69 to 6 693.13;
- raising the threshold for the maximum marginal rate from EUR 34 417.54 to 65 443.89;

2.- the introduction of an effective tax floor at the same level as the guaranteed minimum income;

3.- changing the method of including allowances for any children who are part of the taxpayer's household, and the uniform lowering from EUR 1 487.36 to EUR 1 189.89 of the maximum relief resulting from reduction of the tax.

The measure was complemented by raising the direct family allowance of EUR 297.47 per child for which mainly low-income families who do not qualify, or who qualify to a slight extent only, for the revised scale of rates are eligible.

In order to continue on this course, the Government has decided to reduce personal income tax further with effect from 2001.

This new proposal for reducing the taxation of individuals will be spread over 2001 and 2002, and will result from 2002 in an overall easing of the tax burden by more than LUF 15.0 billion.

From 1 January 2001, the Government has decided to:

- raise the tax threshold from LUF 270 000 to 390 000 for single persons and from LUF 540 000 to 780 000 for married persons, single persons over the age of 65, widow(er)s, and unmarried persons with children in their household;
- fix income bands uniformly at LUF 69 000. In the new scale, the second band (taxed at 6%) and the last band (taxed at 46%) are abolished;
- uniformly reduce the rates for the remaining bands by 2 percentage points. Thus the maximum marginal rate is reduced to 42% (from the current 46%) and applies to the band of LUF 1 356 000 and over in tax class 1.

In the current scale, the 42% rate applies to the LUF 1 251 000 to 1 320 000 band.

The budgetary erosion resulting from this adjustment of the scale amounts to some LUF 10 billion for fiscal 2001 and an estimated LUF 8 billion for 2002.

In addition, following a detailed analysis of tax allowances and lump-sum payments, and subject to other adjustment considerations, the Government is planning, for 2002, to make a uniform reduction of 4 percentage points in the rates for the various income bands, thus lowering the rate at which tax starts to be paid to 10% and the top marginal rate to 38%.

- Promoting the information society

The spread of the information society is not only an economic challenge but a social and cultural one, which the Government has accurately assessed and in which it intends to play a full and active part.

Following the Feira European Council, the Government has undertaken to draw up a national action plan that will give firmer shape to the European decisions taken in Lisbon.

In accordance with its commitments in this respect - in particular those made in the Government's most recent speech on the state of the nation - the draft budget voted for 2001 shows a very large increase in the resources allocated to accelerating Luxembourg's progress in the information society.

The most visible expression of this is a new appropriation for the Ministry of State - EUR 3.7 million for implementing the national action plan for the information society.

As well as this large funding commitment, an appropriation of EUR 0.9 million has been entered for next year for creating a Government website.

It should be noted in this respect that the overall effect of the choices made by the Government in finalising the 2001 budget is to increase by EUR 4.6 million the appropriations earmarked for the wider use of information technology in government departments and public services (purchase of hardware and software, study and consultancy costs, etc.).

Similarly, the overall budget for the Government Information Centre (CIE) will be EUR 20 million - an increase of 18% on the budget for 2000.

Apart from the recruitment of extra staff for the CIE, the appropriation for hiring outside consultants is increased by 25% and goes up to EUR 6.2 million. This will make it possible to press forward with certain large-scale projects, such as the computerisation of the Inland Revenue and the administration of the courts, and to introduce the integrated management of land registration.

- Promoting research

Aware of the need to give high priority to research (both scientific and applied), the Government has promised in its programme that by 2004 the budget resources for public R&D will amount to 0.3% of GDP and that an increasing share of these resources will be earmarked for the National Research Fund.

The National Research Fund's allocation goes up from 9.6% of the total appropriations for public research in 2000 to 23% in 2001.

The Government has adopted the following four multiannual priority research programmes for the period 2000-05:

(a) security and effectiveness of new electronic commerce practices;

(b) new materials and nanotechnology;

(c) sustainable management of water resources;

(d) biotechnology and health.

- The programme on the security and effectiveness of new electronic commerce practices is designed to develop in Luxembourg the necessary theoretical, methodological and technological knowledge for the general expansion of secure and effective electronic cooperation.

- The purpose of the new materials and nanotechnology programme is to set up a European centre specialising in the nanoscientific characterization of materials.

- The sustainable management of water resources programme aims to create in Luxembourg a centre of excellence in hydrology to elucidate the complex mechanisms of the natural water cycle, evaluate ways of safeguarding resources and protecting their quality, develop the most appropriate and the least expensive innovative monitoring and treatment technologies, and prevent waste.
- Lastly, the biotechnology and health programme is intended to help improve the quality of the prevention, detection and treatment of cancer and cardiovascular diseases, while at the same time increasing the use and competitiveness of fundamental and clinical biomedical research in Luxembourg, including the promotion of health through new biotechnologies.

- Promoting stability and peace in Europe

So that Luxembourg, basically, can make its contribution to the task of maintaining peace and stability in Europe, as announced in the state-of-the-nation speech, a start has been made on gradually augmenting the budget resources devoted to the military, with the aim of exceeding 1% of GDP in the medium term: the appropriations in this chapter have been substantially increased.
The 2001 budget also allocates the appropriations necessary for the creation of a volunteer civilian corps. This will take part both in peacekeeping missions carried out during crisis management operations and in humanitarian missions in the event of natural disasters.
This objective will also be achieved by continuing to add to the human and material resources of the Ministry of Foreign Affairs; particularly noteworthy in this respect is the allocation of more than EUR 1.5 million for modernising the Ministry's internal communication and data transmission network.

- Improving the safety of citizens

As announced in the Statement of 12 August 1999, internal security and law and order are a major priority for the Government.
A significant item in the 2000 budget was the implementation of the new Law setting up a single police force for the Grand Duchy; the 2001 budget continues these efforts, with regard to both material resources and staff.
The appropriations entered in the budget for both the Ministry of the Interior and the Ministry of Public Works are increased by more than 11% and will, in particular, make it possible to increase substantially the safety and protection equipment of the Grand Duchy's police force.

- Development of social, medical and family infrastructure

An important feature of the budget for the Ministry of the Family, Social Solidarity and Youth is the substantial increase in appropriations for expanding the network of childcare institutions.
New funds are being allocated to registered child day care centres, enabling them to provide additional places. The appropriation for hiring places in private crèches has been doubled compared with the budget for the previous financial year. That part of the appropriation transferred from the Ministry of Education's budget which enables the central government to help meet the cost to local authorities of assuming responsibility for children outside school hours (supervised leisure activities, catering services) is increased by 35%.
As regards the Ministry of Health, attention is drawn to the substantial increase in the allocation to the special fund for hospital investment. The appropriation of EUR 35 million (+17.6%), plus the additional receipts from 1998 and 1999 allocated to this fund (EUR 37.2 million on each occasion), will provide the necessary resources for investment in large-scale hospital projects.

- Introduction of measures to ensure food safety

Following the food safety inquiries which have been held abroad, the Government is planning to strengthen and optimise control infrastructures and procedures in this sphere.

Thus the Ministry of Agriculture, the Veterinary Services Authority and the National Health Laboratory have together been given extra staff, so that the control laboratories can carry out more work. In particular, additional appropriations have been allocated for purchasing the necessary reagents for BSE tests.

- Development of solidarity policy and humanitarian action

In its Statement of 12 August 1999, the Government set itself the objective, as regards official development assistance, of reaching a rate of 0.7% of gross national income (GNI) in 2000 and of increasing this aid to nearly 1% by the end of the present legislative period.

In accordance with the timetable laid down, from 2001 the rate for this aid will be increased from 0.7% - the planned target for 2000 - to 0.76 %. This will result, given the concomitant growth of GNI, in an increase in total development assistance of EUR 210 million, or 16 %.

- Increasing public sector investments

As in the past, the Government continues to grant high priority to the expansion and modernisation of the public infrastructure. In 2000 investment expenditure grew by 14% compared with 1999, and it will go up again in 2001 by over 20%.

This list of the main policy features decided by the Government when finalising the 2001 budget is far from exhaustive. The budget is also aimed at implementing a number of new initiatives in other fields, and at broadening the scope of existing measures in various areas of government activity.

LIENHYPERTEXTEINCORPORERINCORPORER**III. GENERAL GOVERNMENT NET LENDING**

1999 financial year

	as % of GDP	**EUR billion**
Central government expenditure	27.5%	5.0
Central government receipts	30.2%	5.5
Balance	2.7%	0.5
Social security expenditure	18.1%	3.3
Social security receipts	19.8%	3.6
Balance	1.6%	0.3
Local government expenditure	6.6%	1.2
Local government receipts	6.6%	1.2
Balance	0.0%	0.0

General government expenditure	42.9%	7.8
General government receipts	47.3%	8.6
Balance	4.4%	0.8

Net lending in 1999 stood at EUR 0.8 billion for the public sector as a whole, or 4.4% of GDP, well above the preliminary estimates published in the update of the stability programme in March 2000. The difference of more than 2 percentage points is explained by a more favourable economic climate than could be envisaged when the stability programme was updated. GDP growth, which was estimated at around 4.9% at the time, currently stands at 7.5%. It goes without saying that general government receipts have grown more rapidly than forecast, while expenditure has grown much as indicated in the initial estimates. As a result, general government net lending, which had been estimated at 2.3% of GDP or EUR 0.4 billion, has had to be revised upwards.

In 1999, the central government sub-sector generates the highest level of net lending, namely EUR 0.5 billion, compared with an initial forecast of EUR 0.1 billion. On the expenditure side, the expenditure of the special funds has been revised downwards by some EUR 0.1 billion, since a number of investment projects planned in 1999 could not be carried out in full and were thus deferred. The most notable example is the deferred investment in the hospital sector. On the receipts side, the re-estimate of real GDP growth from 4.9% to 7.5% results in additional receipts of 0.3 billion by comparison with initial estimates. These additional receipts have been allocated to the special funds as reserves. The structure of central government expenditure remains the same. Despite lower than expected investment levels, central government's direct investment expenditure still represents more than 9% of its total expenditure. If expenditure on investment by the municipalities is added, this gives a rate of 4.5% of GDP, the highest investment rate in the entire European Union. At the same time, interest payments account for only 0.3% of GDP (0.2%

for central government and 0.1% for local government). The results of growth combined with efforts to control operating expenditure were thus used primarily to finance the improvement and development of national infrastructures.

Social security net lending, at 0.3 billion or 1.6% of GDP, does not differ from the estimates contained in the stability programme updated in March 2000. Examination of the structure of expenditure shows that expenditure connected with the general pension scheme reaches 1.5 billion, up by 4.6% on 1998 levels. Then there is the expenditure on sickness insurance at 1 billion, on family allowances at 0.5 billion, and on care insurance, accident insurance and civil servants' and local authority employees' pensions at EUR 0.1 billion each. The 13% growth in expenditure between 1998 and 1999 is attributable to the introduction of care insurance in Luxembourg in 1999. As regards the reserves, growth of 7.6% can be recorded, bringing them up to a level of 4.1 billion. The general pension scheme reserves, which stood at 3.7 billion in 1999, have grown by 8.5%.

As indicated in the last update of the stability programme, local government closed the 1999 financial year in balance.

The 2000 financial year

	as % of GDP	**EUR billion**
Central government expenditure	27.7%	5.6
Central government receipts	28.7%	5.8
Balance	1.0%	0.2
Social security expenditure	16.8%	3.4
Social security receipts	18.8%	3.8
Balance	2.0%	0.4
Local government expenditure	5.9%	1.2
Local government receipts	5.9%	1.2
Balance	0.0%	0.0

General government expenditure	41.1%	8.3
General government receipts	44.1%	8.9
Balance	3.0%	0.6

In 2000, general government net lending stands at EUR 0.6 billion, or 3.0% of GDP. Although this figure represents a drop compared with the exceptional level reached in 1999, net lending remains strong in 2000 as a proportion of GDP. Compared with the stability programme updated in March 2000, net lending estimates have been revised upwards (3.0% of GDP instead of 2.5% of GDP), mainly as a result of an upward adjustment of GDP, resulting in more rapid growth of receipts. While GDP growth was estimated at the beginning of the year at 4.9%, the latest estimates put it at 8.3%.

Central government net lending stands at EUR 0.2 billion in 2000, or 1% of GDP (0.3% at the last update of the programme). The impact of the strong growth of GDP was lessened by the conclusion of a new civil service pay agreement (at an estimated cost for 2000 of EUR 50 million) and by additional expenditure on aid for refugees (over EUR 35 million extra). Despite this additional expenditure on government consumption and transfers, the structure of public sector expenditure has barely changed. The proportion of central government expenditure taken up by consumption and thus by expenditure on salaries and social security contributions fell between 1999 and 2000 (29.9% in 1999 compared with 28.3% in 2000), bringing expenditure in 2000 on salaries and social security contributions to below 6% of GDP. In general, and as already indicated in the last update of the stability programme, social security transfers represent the largest item from 2000, overtaking expenditure on general government consumption. Investments will reach a level over 9% of total expenditure. Adding the investment expenditure of the other government sectors gives a level of investment of 4.5% of GDP. Expenditure on interest will continue to constitute less than 1% of total expenditure and only 0.2% in terms of GDP. These data show that despite the growth in expenditure on salaries and social security contributions, a high level of investment was maintained, in conjunction with a reduction in interest payments, which were already low in GDP terms.

Social security net lending will reach 2.0% of GDP in 2000. Net lending has thus grown by EUR 0.1 billion compared with 1999, owing to the faster growth in employment (+5.8%) and the wage bill (+11.1%). The reserves of all the schemes taken together reach EUR 4.5 billion in 2000, which represents growth of 11%. The reserves of the general pension scheme grew by 12%, reaching EUR 4.1 billion in 2000.

The net lending of the municipalities will stand at EUR 69 million. As in the case of central government, the higher GDP growth than forecast in the last stability programme has resulted in additional receipts. Since these have grown more rapidly than expenditure, net lending has also grown (EUR 69 million compared with EUR 20 million in the last programme).

Projections 2001-03

	2001		**2002**		**2003**	
	as % of GDP	**EUR billion**	**as % of GDP**	**EUR billion**	**As % of GDP**	**EUR billion**
Central government expenditure	27.1%	5.8	26.8%	6.2	26.7%	6.7
Central government receipts	27.4%	5.9	27.2%	6.3	27.1%	6.8
Balance	0.3%	0.1	0.4%	0.1	0.4%	0.1
Social security expenditure	17.6%	3.8	17.2%	4.0	17.0%	4.3
Social security receipts	19.9%	4.3	19.3%	4.5	19.1%	4.8
Balance	2.3%	0.5	2.1%	0.5	2.1%	0.5
Local government expenditure	6.0%	1.3	6.0%	1.4	5.6%	1.4
Local government receipts	6.0%	1.3	6.0%	1.4	5.6%	1.4
Balance	0.0%	0.0	0.0%	0.0	0.0%	0.0
General government expenditure	39.8%	8.6	39.1%	9.1	38.8%	9.7
General government receipts	42.6%	9.2	41.6%	9.7	41.2%	10.3
Balance	2.6%	0.6	2.5%	0.6	2.5%	0.6

Before going into the forecasts in detail, it should be noted that the forecast of central government net lending in 2001-03 was based on the approved budget for central government receipts and expenditure in 2001.

Overall, GDP growth in the forecast period 2001-03 is considerably slower; a major tax reform will also take place. While GDP growth for 2000 is estimated at 8.3%, growth in 2001 is not likely to be higher than 5.2%, as forecast by the National Statistical Institute (STATEC). While this still represents a high level of growth on a European scale, the slowdown of more than three percentage points is reflected in the level of general government net lending. Taking account of the effects of the tax reform, described in detail in the section on the 2001 budget, net lending will stabilise at around EUR 0.6 billion in the period 2001-03, averaging 2.6% of GDP. It should also be stressed that the public sector's share in the economy continues to diminish. While general government expenditure had stood at nearly 43% of GDP, it should gradually fall from this level during the period, reaching 38.8% of GDP in 2003.

Before giving a detailed analysis of central government net lending, it should be pointed out that central government has considerable reserves that are not reflected in net lending. For 2001, budget and special fund reserves taken together will stand at EUR 1.7 billion, which is equivalent to 8% of GDP.

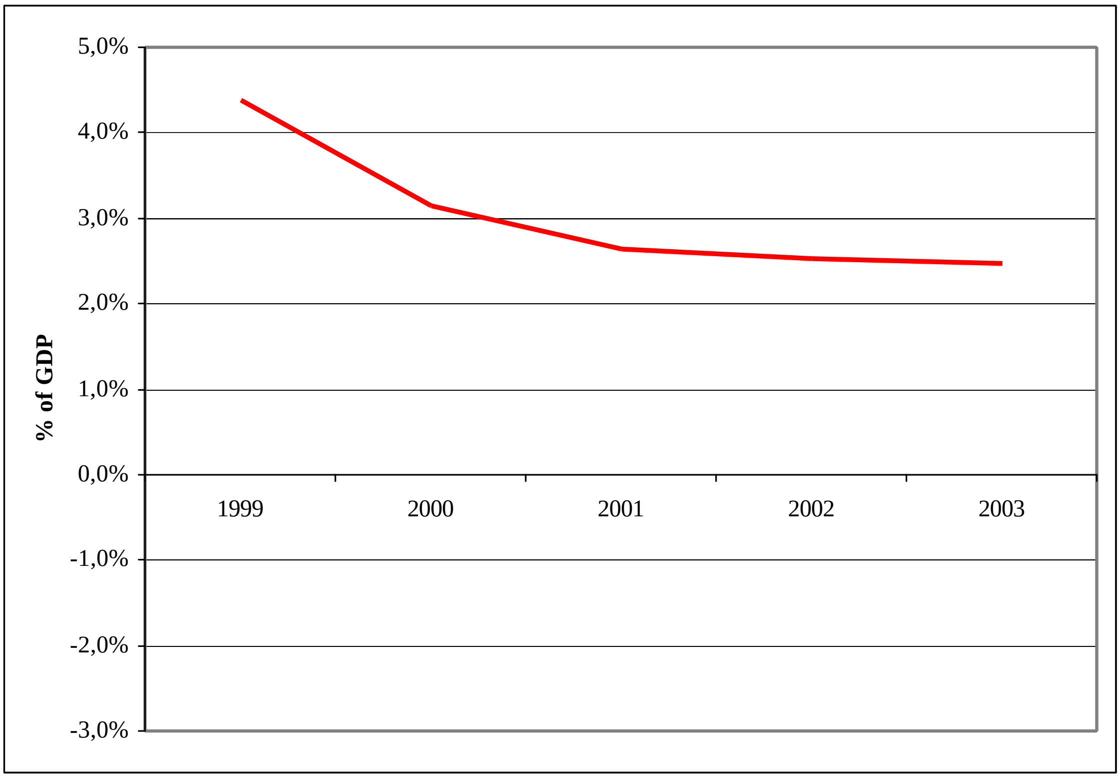
If we now analyse the three sub-sectors in detail, it becomes clear that the drop in overall net lending originates in central government net lending. In 2001, according to the budget forecasts, central government revenue will stagnate, while expenditure will continue to grow at a steady pace. Consequently, central government net lending will stand at EUR 0.1 billion, or 0.3% of GDP. This fall in net lending is primarily due to the significant tax reform measures. Since further tax measures are planned for 2002, central government net lending in this financial year will probably remain at a level similar to that in 2001. It is only in 2003 that central government net lending is likely to rise again.

The structure of central government expenditure will remain the same as in 2000. The greatest proportion of total expenditure, over 28%, will be taken up by expenditure on social security transfers, closely followed by expenditure on consumption. The third largest item will consist of investment expenditure at more than 10% of total expenditure and averaging close on 3% of GDP over the forecast period. Despite the major tax reform, it should be possible to maintain the high investment levels. Expenditure on interest will not change by comparison with 1999 and 2000, remaining below 1% of total expenditure or 0.3% of GDP.

Social security net lending will remain high during the financial years 2001 to 2003. It will reach 0.5 billion on average, as estimated in the last stability programme. The balance of the general pension scheme will reach 0.5 billion in 2001, to rise slightly subsequently. The reserves of this scheme will stand at more than 5.1 billion in 2003, or 22.4% of GDP. Total reserves will hit a threshold of 5.6 billion (24.3% of GDP). The balance of care insurance, introduced in 1999, will stand at 9.10 million in 2003.

Over the whole period 2001-03, local government should close its accounts in balance, which means the balance of the accounts will have fallen slightly.

Trend of public-sector net lending (% of GDP)



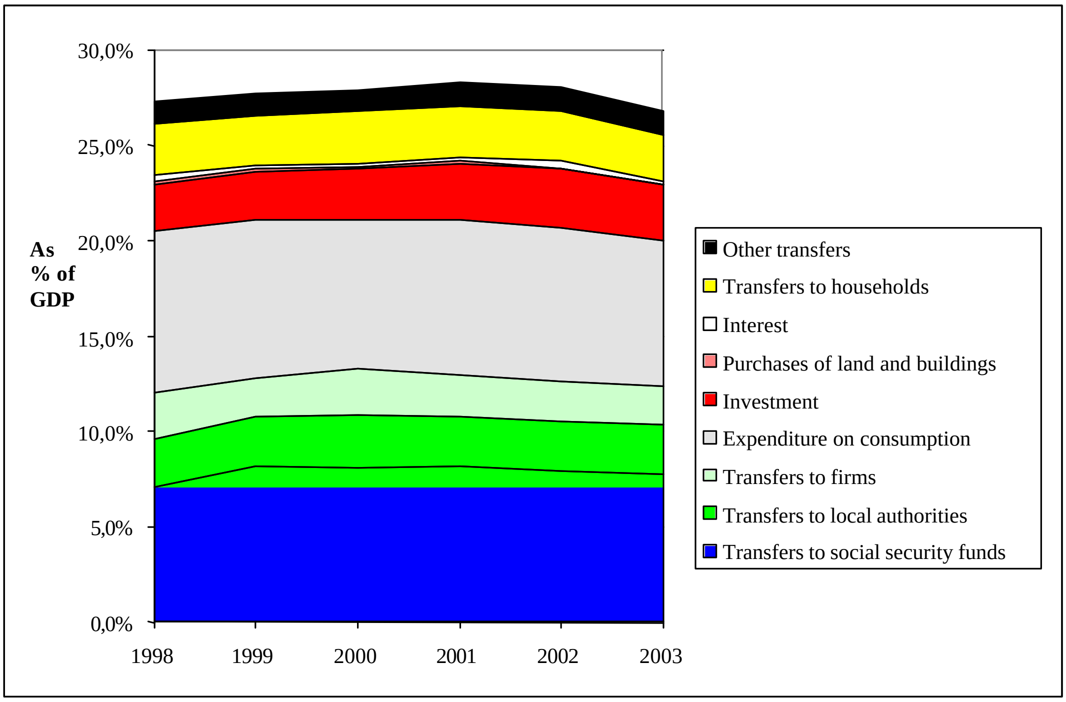
Conclusion

The forecast period as a whole is marked by a high level of general government net lending, which is primarily attributable to strong economic growth and tight control of public expenditure. Despite a cautious expenditure policy, the economy as a whole will benefit from the fruits of growth via far-reaching tax reform and a policy of creating and modernising public infrastructures.

ANNEXES

Breakdown of central government expenditure by economic category

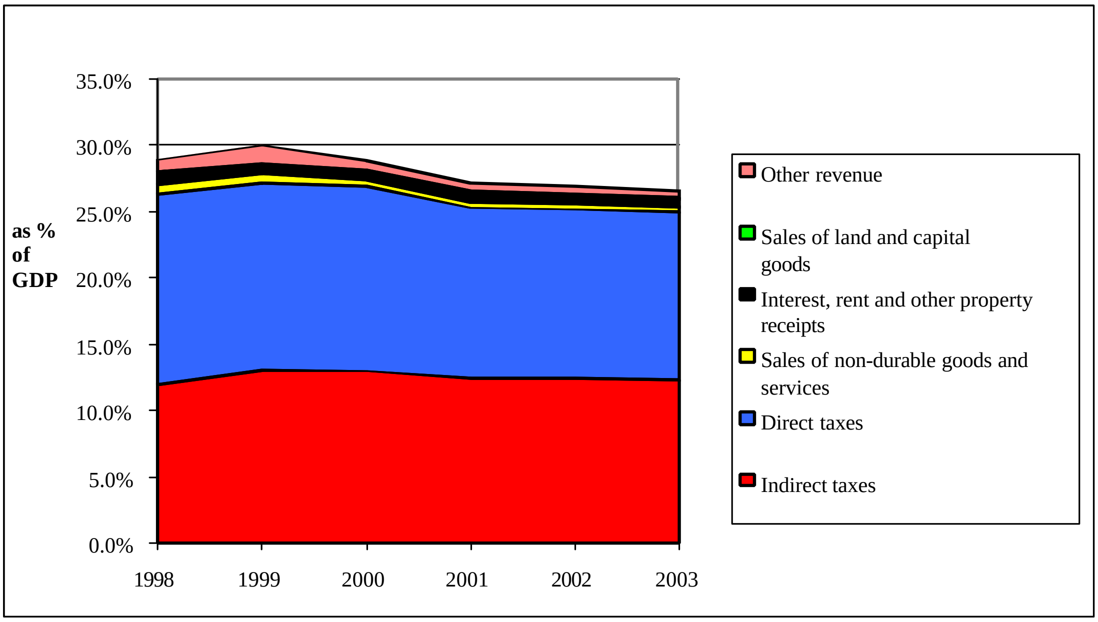
as % of expenditure	1999	2000	2001	2002	2003
Transfers to social security funds	29.5%	28.9%	28.7%	28.4%	29.0%
Transfers to local authorities	9.3%	10.3%	9.4%	9.4%	9.8%
Transfers to firms	7.4%	8.4%	7.8%	7.5%	7.4%
Expenditure on consumption	29.9%	28.3%	28.5%	28.5%	28.6%
Investment	9.1%	9.2%	10.4%	10.8%	10.6%
Purchases of land and buildings	0.5%	0.3%	0.2%	0.2%	0.2%
Interest	0.9%	0.8%	0.7%	1.5%	0.7%
Transfers to households	9.4%	9.6%	9.7%	9.3%	9.1%
Other transfers	4.1%	4.2%	4.6%	4.4%	4.5%
Total	100%	100%	100%	100%	100%
as % of GDP					
Transfers to social security funds	8.2%	8.1%	8.1%	8.0%	7.8%
Transfers to local authorities	2.6%	2.9%	2.7%	2.6%	2.6%
Transfers to firms	2.1%	2.4%	2.2%	2.1%	2.0%
Expenditure on consumption	8.3%	7.9%	8.1%	8.0%	7.6%
Investment	2.5%	2.6%	2.9%	3.0%	2.8%
Purchases of land and buildings	0.1%	0.1%	0.1%	0.1%	0.1%
Interest	0.2%	0.2%	0.2%	0.4%	0.2%
Transfers to households	2.6%	2.7%	2.7%	2.6%	2.4%
Other transfers	1.1%	1.2%	1.3%	1.2%	1.2%
Total	27.7%	27.9%	28.3%	28.0%	26.7%



Breakdown of central government receipts by economic category

as % of total revenue	1999	2000	2001	2002	2003
Indirect taxes	43.6%	45.0%	45.7%	46.0%	46.2%
Direct taxes	47.1%	48.4%	47.3%	47.5%	47.8%
Sales of non-durable goods and services	2.1%	1.8%	1.6%	1.5%	1.4%
Interest, rent and other property receipts	2.2%	2.3%	2.6%	2.4%	2.3%
Sales of land and capital goods	0.4%	0.4%	0.4%	0.4%	0.4%
Other receipts	4.5%	2.1%	2.4%	2.1%	1.9%
Total	100%	100%	100%	100%	100%
as % of GDP					
Indirect taxes	13.1%	13.0%	12.4%	12.4%	12.3%
Direct taxes	14.1%	14.0%	12.9%	12.8%	12.7%
Sales of non-durable goods and services	0.6%	0.5%	0.4%	0.4%	0.4%
Interest, rent and other property receipts	0.7%	0.7%	0.7%	0.6%	0.6%
Sales of land and capital goods	0.1%	0.1%	0.1%	0.1%	0.1%
Other receipts	1.4%	0.6%	0.6%	0.6%	0.5%
Total	30%	28.8%	27.2%	26.9%	26.6%

Breakdown of central government revenue by economic category (as % of GDP)



Balance of current social security operations (as % of GDP)

	1999	2000	2001	2002	2003
Sickness/maternity insurance	-0.05%	0.19%	0.11%	0.06%	0.03%
Care insurance	0.13%	0.01%	0.03%	0.03%	0.04%
General pension scheme	1.59%	2.14%	2.32%	2.14%	2.05%
Local authority employees' pension scheme	0.01%	0.01%	-0.01%	0.00%	-0.01%
Accident insurance	-0.02%	0.00%	0.02%	0.03%	0.04%
Caisse nationale des prestations familiales (National family allowance scheme)	0.00%	0.00%	0.00%	0.00%	0.00%
Total	1.66%	2.33%	2.34%	2.25%	2.14%

Reserves by social security scheme (as % of GDP)

	1999	2000	2001	2002	2003
Sickness/maternity insurance	0.45%	0.52%	0.59%	0.65%	0.64%
Care insurance	0.13%	0.12%	0.14%	0.16%	0.18%
General pension scheme	20.26%	20.44%	21.31%	21.94%	22.39%
Local authority employees' pension scheme	0.23%	0.22%	0.20%	0.18%	0.16%
Accident insurance	1.24%	1.05%	0.99%	0.95%	0.92%
Caisse nationale des prestations familiales (National family allowance scheme)	0.05%	0.05%	0.04%	0.04%	0.04%
Total	22.36%	22.40%	23.26%	23.91%	24.32%

SUPPLEMENT

Tax reform details

Article 118 of the Income Tax Law lays down the tax scale by reference to which personal income tax is calculated.
The tax scale presently in force was laid down by the law of 17 November 1997 amending the tax levels applicable to personal income tax.
The tax scale applicable since the 1998 tax year is as follows:

Income band (in LUF)			Width of band	Marginal rate
0	-	270 000	270 000	0%
270 000	-	354 000	84 000	6%
354 000	-	423 000	69 000	16%
423 000	-	492 000	69 000	18%
492 000	-	561 000	69 000	20%
561 000	-	630 000	69 000	22%
630 000	-	699 000	69 000	24%
699 000	-	768 000	69 000	26%
768 000	-	837 000	69 000	28%
837 000	-	906 000	69 000	30%
906 000	-	975 000	69 000	32%
975 000	-	1 044 000	69 000	34%
1 044 000	-	1 113 000	69 000	36%
1 113 000	-	1 182 000	69 000	38%
1 182 000	-	1 251 000	69 000	40%
1 251 000	-	1 320 000	69 000	42%
1 320 000	-	2 640 000	1 320 000	44%
2 640 000		and over		46%

Characteristics of the present scale:

The present, progressive, scale of tax rates consists of eighteen bands on which, as from the third band, the tax chargeable is increased by 2 percentage points. Income up to LUF 270 000 is exempt from tax, being subject to a zero rate set for the first band. Apart from the second band (taxable income between LUF 270 000 and LUF 354 000 - difference of LUF 84 000), each of the other bands are the same size (LUF 69 000), except for the penultimate band which covers income between LUF 1 320 000 and LUF 2 640 000.
As regards the progressive aspect of the tax, 6% tax is charged on the second band (from LUF 274 000 to LUF 354 000), 16% on the third band (from LUF 354 000 to LUF 423 000), an additional 2 percentage points on each of the following bands, and 46% on the last band (income in excess of LUF 2 640 000).
All these factors have a direct impact on the overall rate, i.e. on the relationship between the amount of tax due and the taxable income as adjusted. In effect this is equivalent to the average rate of tax for a given situation of taxable income as adjusted.

It should be noted that the overall rate is not the same as the marginal rate, another important criterion in arriving at the appropriate tax rate. The marginal tax rate expresses the relationship between an increase in the tax amount and the increase in the taxable income as adjusted. It therefore signifies the extent to which a change in taxable income as adjusted is subject to tax.

The proposals for reform of the tax scale

Compared with the current scale the new scale, as proposed by the government, is as follows:

Income band (in LUF)			Width of band	Marginal rate
0	-	390 000	390 000	0%
390 000	-	459 000	69 000	14%
459 000	-	528 000	69 000	16%
528 000	-	597 000	69 000	18%
597 000	-	666 000	69 000	20%
666 000	-	735 000	69 000	22%
735 000	-	804 000	69 000	24%
804 000	-	873 000	69 000	26%
873 000	-	942 000	69 000	28%
942 000	-	1 011 000	69 000	30%
1 011 000	-	1 080 000	69 000	32%
1 080 000	-	1 149 000	69 000	34%
1 149 000	-	1 218 000	69 000	36%
1 218 000	-	1 287 000	69 000	38%
1 287 000	-	1 356 000	69 000	40%
1 356 000	and over		-	42%

In accordance with the government's intentions, the changes in tax scale will give all taxpayers a tax reduction to a varying extent.

It was clearly necessary for these reductions in the tax scale to conform to the budget limits adopted by the government in line with the prudent budgetary policy that it intends to conduct throughout the current legislative period.

In view of these concerns, it was decided:

- to raise the exempt income level from LUF 270 000 to LUF 390 000 for single persons and from LUF 540 000 to LUF 780 000 for married persons, single persons over 65 years of age, widow(er)s and unmarried persons with children living with them. This represents an increase of some 45% compared with the present tax scale; this means that individuals in tax class 1 receiving a taxable income as adjusted of LUF 390 000 or individuals in tax class 2 receiving a taxable income as adjusted of LUF 780 000, who now pay LUF 10 800 and LUF 21 600 respectively a year, will no longer pay tax;
- to set the bands of taxable income at a uniform LUF 69 000. The new tax scale does away with the second (6%) band and the last (46%) band that exist at present;

- to reduce the rates chargeable on the remaining bands by a uniform 2 percentage points. The top marginal rate of tax is therefore cut to 42% (at present 46%) and applies to the income band in excess of LUF 1 356 000 in tax class 1.

Under the present tax scale, the 42% rate applies to the income band of between LUF 1 251 000 and LUF 1 320 000.
The budgetary erosion resulting from these changes to the tax scale represents a loss of revenue of some LUF 10 billion for the 2001 tax year; for the 2002 budget year this loss is estimated at LUF 8 billion.
In addition, following a detailed analysis of tax allowances and lump-sum payments, and subject to other adjustment considerations, the Government is planning, for 2002, to make a uniform reduction of 4 percentage points in the rates for the various income bands, thus lowering the rate at which tax starts to be paid to 10% and the top marginal rate to 38%.

Tax classes:

The new tax scale retains tax classes 1, 1a and 2, which exist under the current scale. There is no change to the tax allowance for children, which remains set at the maximum of LUF 36 000 a year for a child living with individuals falling into class 1a or 2.

Impact of the reform of the income tax scale for 2001

Reduction in the tax burden on natural persons

1. single persons (TAX CLASS 1)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
income under Article 126 ITL	tax due	Average tax rate	tax due	average tax rate	reduction in tax due	reduction in average rate	reduction as % of tax due
400 000	12 400	3.10%	1 400	0.35%	11 000	2.75%	88.70%
500 000	30 100	6.02%	16 220	3.24%	13 880	2.78%	46 .11%
600 000	50 880	8.48%	33 720	5.62%	17 160	2.86%	33 .73%
700 000	74 300	10.61%	54 400	7.77%	19 900	2.84%	26 .78%
800 000	100 940	12.62%	77 700	9.71%	23 240	2.91%	23 .02%
1 000 000	162 580	16.26%	133 320	13.33%	29 260	2.93%	18 .00%
1 200 000	235 800	19.65%	200 520	16.71%	35 280	2.94%	14 .96%
1 500 000	364 380	24.29%	321 300	21.42%	43 080	2.87%	11 .82%
2 000 000	584 380	29.22%	531 300	26.57%	53 080	2.65%	9 .08%
2 500 000	804 380	32.18%	741 300	29.65%	63 080	2.53%	7 .84%
3 000 000	1 031 580	34.39%	951 300	31.71%	80 280	2.68%	7 .78%
3 500 000	1 261 580	36.05%	1 161 300	33.18%	100 280	2.87%	7 .95%
4 000 000	1 491 580	37.29%	1 371 300	34.28%	120 280	3.01%	8 .06%
5 000 000	1 951 580	39.03%	1 791 300	35.83%	160 280	3.20%	8 .21%
6 000 000	2 411 580	40.19%	2 211 300	36.86%	200 280	3.33%	8 .30%
10 000 000	4 251 580	42.52%	3 891 300	38.91%	360 280	3.61%	8.47%

2. married persons with no children (TAX CLASS 2)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
Income under Article 126 ITL	tax due	average tax rate	tax due	average tax rate	reduction in tax due	Reduction in average rate	Reduction as % of tax due
700 000	9 600	1.37%	0	0%	9 600	1.37%	100%
800 000	24 800	3.10%	2 800	0.35%	22 000	2.75%	88.71%
1 000 000	60 200	6.02%	32 440	3.24%	27 760	2.78%	46.11%
1 200 000	101 760	8.48%	67 440	5.62%	34 320	2.86%	33.73%
1 500 000	174 600	11.64%	131 400	8.76%	43 200	2.88%	24.74%
2 000 000	325 160	16.26%	266 640	13.33%	58 520	2.93%	18%
2 500 000	511 600	20.46%	438 320	17.53%	73 280	2.93%	14.32%
3 000 000	728 760	24.29%	642 600	21.42%	86 160	2.87%	11.82%
3 500 000	948 760	27.11%	852 600	24.36%	96 160	2.75%	10.14%
4 000 000	1 168 760	29.22%	1 062 600	26.57%	106 160	2.65%	9.08%
5 000 000	1 608 760	32.18%	1 482 600	29.65%	126 160	2.53%	7.84%
6 000 000	2 063 160	34.39%	1 902 600	31.71%	160 560	2.68%	7.78%
10 000 000	3 903 160	39.03%	3 582 600	35.83%	320 560	3.20%	8.21%

3. married persons with one child (TAX CLASS 2.1)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
Income under Article 126 ITL	tax due	average tax rate	tax due	Average tax rate	reduction in tax due	Reduction in average rate	reduction as % of tax due
1 000 000	5 880	0.59%	0	0%	5 880	0.59%	100.00%
1 200 000	65 760	5.48%	31 440	2.62%	34 320	2.86%	52.19%
1 500 000	138 600	9.24%	95 400	6.36%	43 200	2.88%	31.17%
2 000 000	289 160	14.46%	230 640	11.53%	58 520	2.93%	20.14%
2 500 000	475 600	19.02%	402 320	16.09%	73 280	2.93%	15.40%
3 000 000	692 760	23.09%	606 600	20.22%	86 160	2.87%	12.44%
3 500 000	912 760	26.08%	816 600	23.33%	96 160	2.75%	10.54%
4 000 000	1 132 760	28.32%	1 026 600	25.67%	106 160	2.65%	9.37%
5 000 000	1 572 760	31.46%	1 446 600	28.93%	126 160	2.53%	8.02%
6 000 000	2 027 160	33.79%	1 866 600	31.11%	160 560	2.68%	7.92%
10 000 000	3 867 160	38.67%	3 546 600	35.47%	320 560	3.20%	8.29%

4. married persons with two children (TAX CLASS 2.2)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
Income under Article 126 ITL	tax due	average tax rate	tax due	Average tax rate	reduction in tax due	Reduction in average rate	reduction as % of tax due
1 200 000	29 760	2.48%	0	0%	29 760	2.48%	100%
1 500 000	102 600	6.84%	59 400	3.96%	43 200	2.88%	42.11%
2 000 000	253 160	12.66%	194 640	9.73%	58 520	2.93%	23.12%
2 500 000	439 600	17.58%	366 320	14.65%	73 280	2.93%	16.67%
3 000 000	656 760	21.89%	570 600	19.02%	86 160	2.87%	13.12%
3 500 000	876 760	25.05%	780 600	22.30%	96 160	2.75%	10.97%
4 000 000	1 096 760	27.42%	990 600	24.77%	106 160	2.65%	9.68%
5 000 000	1 536 760	30.74%	1 410 600	28.21%	126 160	2.53%	8.21%
6 000 000	1 991 160	33.19%	1 830 600	30.51%	160 560	2.68%	8.06%
10 000 000	3 831 160	38.31%	3 510 600	35.11%	320 560	3.20%	8.37%

5. single persons (over the age of 65) or widows (TAX CLASS 1A)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
Income under Article 126 ITL	tax due	average tax rate	tax due	average tax rate	reduction in tax due	reduction in average rate	reduction as % of tax due
700 000	24 540	3.51%	0	0%	24 540	3.51%	100%
800 000	49 780	6.22%	4 200	0.5%	45 580	5.72%	91.56%
1 000 000	113 700	11.37%	58 800	5.88%	54 900	5.49%	48.28%
1 200 000	195 900	16.33%	137 760	11.48%	58 140	4.85%	29.68%
1 500 000	333 756	22.25%	263 760	17.58%	69 996	4.67%	20.97%
2 000 000	563 756	28.19%	473 760	23.69%	89 996	4.50%	15.96%
2 500 000	793 756	31.75%	683 760	27.35%	109 996	4.40%	13.86%
3 000 000	1 023 756	34.13%	893 760	29.79%	129 996	4.34%	12.70%
3 500 000	1 253 756	35.82%	1 103 760	31.54%	149 996	4.28%	11.96%
4 000 000	1 483 756	37.09%	1 313 760	32.84%	169 996	4.25%	11.46%
5 000 000	1 943 756	38.88%	1 733 760	34.68%	209 996	4.20%	10.80%
6 000 000	2 403 756	40.06%	2 153 760	35.90%	249 996	4.16%	10.40%
10 000 000	4 243 756	42.44%	3 833 760	38.34%	409 996	4.10%	9.66%

6. single parents with one child living with them (TAX CLASS 1A1)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
income under Article 126 ITL	tax due	average tax rate	tax due	Average tax rate	reduction in tax due	reduction in average rate	reduction as % of tax due
800 000	13 780	1.7%	0	0%	13 780	1.70%	100%
1 000 000	77 700	7.77%	22 800	2.28%	54 900	5.49%	70.66%
1 200 000	159 900	13.33%	101 760	8.48%	58 140	4.85%	36.36%
1 500 000	297 756	19.85%	227 760	15.18%	69 996	4.67%	23.51%
2 000 000	527 756	26.39%	437 760	21.89%	89 996	4.50%	17.05%
2 500 000	757 756	30.31%	647 760	25.91%	109 996	4.76%	14.52%
3 000 000	987 756	32.93%	857 760	28.59%	129 996	4.34%	13.16%
3 500 000	1 217 756	34.80%	1 067 760	30.51%	149 996	4.29%	12.32%
4 000 000	1 447 756	36.19%	1 277 760	31.94%	169 996	4.25%	11.74%
5 000 000	1 907 756	38.16%	1 697 760	33.96%	209 996	4.20%	11.01%
6 000 000	2 367 756	39.46%	2 117 760	35.30%	249 996	4.16%	10.56%
10 000 000	4 207 756	42.78%	3 797 760	38.00%	409 996	4.78%	9.74%

7. single parents with two children living with them (Tax class 1A2)

Class 1	Present tax scale		Proposed tax scale		Tax saved		
income under Article 126 ITL	tax due	average tax rate	tax due	average tax rate	reduction in tax due	reduction in average rate	reduction as % of tax due
1 000 000	41 700	4.17%	0	0%	41 700	4.17%	100.00%
1 200 000	123 900	10.33%	65 760	5.48%	58 140	4.85%	46.92%
1 500 000	261 756	17.45%	191 760	12.78%	69 996	4.67%	26.74%
2 000 000	491 756	24.59%	401 760	20.09%	89 996	4.50%	18.30%
2 500 000	721 756	28.87%	611 760	24.47%	109 996	4.40%	15.24%
3 000 000	951 756	31.73%	821 760	27.40%	129 996	4.33%	13.66%
3 500 000	1 181 756	33.76%	1 031 760	29.48%	149 996	4.28%	12.69%
4 000 000	1 411 756	35.29%	1 241 760	31.04%	169 996	4.25%	12.04%
5 000 000	1 871 756	37.44%	1 661 760	33.24%	209 996	4.20%	11.22%
6 000 000	2 331 756	38.86%	2 081 760	34.70%	249 996	4.16%	10.72%
10 000 000	4 171 756	41.71%	3 761 760	37.62%	409 996	4.09%	9.83%