LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Finances

6TH UPDATE OF THE LUXEMBOURG STABILITY AND GROWTH PROGRAMME 2003-2007

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CONTENTS

INTRODUCTION

In accordance with Council Regulation EC 1466/97, the Grand-Duchy of Luxembourg presented at the beginning of 1999 its first stability and growth programme to the Council and to the Commission. The present document is the sixth update of this Programme, covering the time period 2003-2007.

As was the case with previous updates, the present update of the stability and growth programme has been prepared in parallel with the draft budget law, which was submitted to Parliament on 20 October 2004 and will be the subject of a final vote towards mid-December 2004. The current update also takes into account the key data of the multi-annual investment spending plan and the 9 November 2004 agreement on the medium term financing framework of the sickness and maternity insurance system.

The updated Luxembourg stability and growth programme has been approved by the Cabinet and has also been transmitted to Parliament.

The stability and growth programme is available on the website of the Ministry of Finance http://www.etat.lu/FI/.

I. THE ECONOMIC CONTEXT

The macroeconomic scenario 2004-2007 underlying to this update of the stability programme was prepared by the government's Central statistics and economic survey service (STATEC). This scenario is identical with the scenario used by the government for the preparation of the draft budget for the fiscal year 2005 and the multi-annual investment spending plan 2004-2008.

It should be noted that at the end of October 2004, following the presentation of the draft budget, STATEC revised economic growth in 2004 and 2005 upwards. However, STATEC did not update the medium term macroeconomic scenario.

In order to ensure consistency between the macroeconomic scenarios on the one hand and the draft budget on the other hand, the present update does not take into account the revision of the macroeconomic scenario of end-October 2004. It should be noted that the GDP growth rate of 3.8% in 2005 retained in this update is situated at the lower limit of the confidence interval built around the central forecast of end-October of 4.2% for 2005 (and the confidence interval is 3.8%-4.6%).

I.1. The Luxembourg economy in 2004

After three years of sluggish economic growth, the Luxembourg economy starts growing more robustly from 2004 onwards. The GDP growth rate accelerates from +2.9% in 2003 to +4.4% in 2004. Although this growth is still very far from the growth rates observed in 1997-2000 (+8.0% per annum on average), it approaches nevertheless the trend growth rate observed over the last twenty years.

The resumption of more robust economic growth originates mainly from the strong international demand for Luxembourg goods and services. In fact, the growth rate of exports of goods and services passes from +1.8% in 2003 to +6.1% in 2004.

The improvement of the general economic outlook also has a positive impact on investment. However, the growth rate of gross fixed capital formation must be interpreted with prudence. In 2003, the growth rate was negative (-6.3%), but only owing to a base effect generated by the purchase of flight equipment in 2002. In 2004, the growth rate of gross fixed capital formation passes to +8.2%, but the acquisition of flight equipment is again responsible for this strong progression. If these 'one-off' purchases are disregarded, the growth rate amounts to about 4% in real terms.

With large budgetary reserves – accumulated during the high-growth years of 1997 to 2000 – at its disposal, the government reacted to the economic slowdown of 2001-2003 by pursuing a counter-cyclical fiscal policy. Consequently, capital and final consumption expenditure levels of general government were maintained. Thus, in 2003 the final consumption expenditure of government rose by 5% in real terms. The more favourable economic outlook enables the government to follow a more restrictive fiscal policy, in particular by slowing down the rate of growth of collective consumption expenditure. Consequently, collective consumption expands at a slower growth rate (+3.4%) in 2004 than during the period 2001-2003 (+4.9% per annum on average).

Despite the acceleration of the growth rate of private consumption from +1.6% in 2003 to +2.2% in 2004, the contribution to total GDP growth of the private component of consumption remains rather weak. Increased uncertainty regarding the general economic outlook, higher unemployment, the deceleration of national employment growth (as opposed to total employment growth) and the 'import' from abroad *via* the media of a crisis of confidence in the prevailing economic system all contribute to explaining why private consumption grows more slowly than the other components of aggregate demand.

All the branches of economic activity benefit from the more favourable macroeconomic environment. The most dynamic branches are industry, construction, transport, financial services and services to households and non-profit organisations. In the financial sector – the engine of growth of the Luxembourg economy – all the performance indicators (bank profits, assets held by the collective investment funds, revenue from commissions, life insurance premiums and also employment) exhibit a positive trend. The industrial sector – and in particular the iron and steel industry – also benefit from the more robust international demand. Production per working day currently expands at more than 6% on an annual basis, while the average growth during 1996-2003 only amounted to about 3%.

The economic slowdown of 2001-2003 led to the appearance of an apparent paradox of the Luxembourg labour market. This paradox consists of the coexistence on the labour market of excess supply (unemployed) and of excess demand that is so strong that non-residents (cross-border workers) currently make up more than one third of total employment. Throughout the period 2001-2003, employment growth did not abate, but at the same time, the unemployment rate passed from 2.5% in 2001 to more than 4% in 2004. Despite the resumption of more vigorous economic growth from 2004 onwards and the acceleration of the growth of total employment (+2.4% in 2004, compared with +1.8% in 2003), the unemployment rate has hardly decreased. Admittedly, in international comparison, an unemployment rate in the region of 4% is still an asset rather than a liability. Nevertheless, the dynamics of unemployment is a cause for concern.

The development of the general level of the consumer prices in 2004 is strongly influenced by the rise in oil prices. The (domestic) consumer price index, which had increased by 1.9% in 2003, increases by 2.3% in 2004. With underlying inflation being moderate, the acceleration of inflation is entirely due to rapidly rising oil prices. Under the terms of the automatic wage indexation mechanism to the general price level, all wages increased by 2.5% on 1 October 2004.

Table 1

Growth and associated factors

	2003	2004	2005	2006	2007
GDP growth at constant market prices	2.9%	4.4%	3.8%	3.3%	4.3%
GDP level at current market prices (in billion €)	23.96	25.51	27.08	28.73	30.59
GDP deflator	2.1%	2.0%	2.3%	2.7%	2.1%
HICP change	2.5%	2.6%	3.2%	1.5%	1.7%
Employment growth					
Total employment	1.8%	2.4%	2.5%	2.5%	2.9%
National employment	0.7%	1.2%	1.1%	0.8%	1.2%
	Sources of growth: % changes at constant prices				
Private consumption expenditure	1.6%	2.2%	3.0%	3.2%	3.3%
Government consumption expenditure	5.0%	3.4%	3.2%	3.0%	3.5%
Gross fixed capital formation (gross of changes in inventories and others)	-6.3%	8.2%	6.1%	1.3%	7.3%
Exports of goods and services	1.8%	6.1%	5.6%	5.4%	5.4%
Imports of goods and services	1.6%	5.9%	5.8%	5.2%	5.7%
	Contribution to GDP growth				
Final domestic demand	1.6%	1.6%	1.8%	1.8%	2.0%
External balance of goods and services	0.6%	1.3%	0.7%	1.1%	0.7%

I.2. Medium-term forecast, 2005-2007

Given the small size of its territory and the very high degree of openness of its economy, the economic situation in Luxembourg is strongly influenced by the development of the economic situation at the international level.

The medium-term forecast elaborated under the hypothesis of a more restrictive monetary and fiscal policy in the United States, of high oil prices and of modest economic growth in Europe.

Under these conditions, world economic growth will slow down, and consequently economic growth in Luxembourg will decelerate. In 2005 and 2006, the real growth rate of GDP will pass underneath the bar of 4% per annum, but it is envisaged that in 2007, the growth rate will exceed 4%.

Economic growth in Luxembourg is mainly driven by external demand for goods and services. Indeed, exports will increase by more than 5% per year in real terms.

A more restrictive fiscal policy implies that the impetus provided to economic activity by public consumption and investment will be less strong than during the period 2001-2003.

However, owing to the persistent uncertainty regarding future economic developments at the national and international levels, private consumption does not take over from public consumption as the engine of economic growth.

Between 2001 and 2003, the rigorous control of corporate spending and corporate restructurings have contributed to a rapid increase in unemployment. Nevertheless, despite a less favourable economic environment, there was a net increase in total employment. In fact, total employment increased by approximately 2% a year. As a result of the acceleration of growth, employment also accelerates. It is envisaged that in 2005 and 2006, total employment will increase by 2.5% per annum and that there will be a further acceleration of employment growth in 2007. Despite the strong employment growth in 2005-2007, the unemployment rate will decrease only marginally and will remain above 4% throughout the forecast horizon. According to STATEC, economic growth must exceed 5% for the unemployment rate to decrease. In other words, even if the resurgence of unemployment in Luxembourg is a cyclical phenomenon, structural employment policies must be implemented in order for the unemployment rate to come down.

With moderate underlying inflation, the medium-term dynamics of consumer prices are largely determined by fluctuations in the oil price. In 2005, oil price movements around a high average price will maintain the inflation rate above 2%. As from 2006, the expected gradual fall in the oil price will bring back the inflation rate underneath 2% a year.

II. GENERAL GOVERNMENT BUDGETARY DEVELOPMENTS IN 2003-2007

II.2. Fiscal year 2003

Despite a third consecutive year of sluggish economic growth, general government generated a budget surplus of +0.8% of GDP in 2003.

At the level of the sub-sectors, central government operations yielded a deficit of –1.2% of GDP. The financial situation of local government was close to a balanced position (+0.1% of GDP) and Social Security recorded a budget surplus of +1.9% of GDP.

In relation to fiscal year 2002 (+2.7% of GDP), the budgetary situation of general government deteriorated markedly in 2003. This deterioration was mainly due to central government operations. In fact, the central government balance passed from + 0.3% of GDP in 2002 to –1.2% of the GDP in 2003. This deterioration is partly connected with the worsening economic situation and partly results from the implementation by the government of an anti-cyclical and expansionary fiscal policy.

On the tax revenue side, the impact of the economic slowdown was felt particularly at the level of certain indirect taxes (in particular the subscription tax and registration duties). In addition, the tax reform of 2001/2002 reduced the tax burden on companies and households, and therefore income tax revenues increased less rapidly than in the past, even if the dynamic effects of the reform must not be overlooked. The negative impact on total tax revenue was, however, largely offset by the collection of corporate taxes on profits realized during the high-growth years 1998-2000, and by high VAT revenues stemming from the development of new activities in the field of electronic commerce. Social contributions continued to increase in 2003. In fact, despite the economic slowdown, total job creations exceeded job destructions. Nevertheless, non-tax revenues decreased and accordingly, the revenue-to-GDP ratio decreased slightly from 45.9% in 2002 to 45.6% in 2003.

On the expenditure side, the ratio between public spending and GDP increased by 1.8%, passing from 43.1% in 2002 to 44.9% in 2003. The increase in public spending relative to GDP reflects the government's intention to stabilise economic activity by maintaining consumption and investment expenditure at previously attained levels. Furthermore, the government allowed automatic stabilizers to work, and hence certain social security benefits – in particular those connected with unemployment – also contributed significantly to the increase of the ratio between public expenditure and GDP.

Note that the accumulation of a sizeable budgetary reserve during the period 1997-2001 enabled the government to implement its anti-cyclical policy without increasing the national debt.

II.2. Fiscal year 2004

In 2004, the budget balance of general government becomes negative, passing from + 0.8% of GDP in 2003 to –1.4% of GDP in 2004.

At the level of the sub-sectors, the balance of central government deteriorates from – 1.2% of GDP to –2.8%. The balance of local government operations also turns negative, although it remains close to balance (-0.1% of GDP). The financial situation of Social Security also deteriorates slightly but it continues to yield a large surplus (+1.6% of GDP).

The expenditure-to-GDP ratio remains fairly stable, but the revenue-to-GDP ratio decreases by more than 2 percentage points. The decrease in the revenue-to-GDP ratio has been anticipated, to the extent that it results largely from the economic slowdown in 2001-2003. Furthermore, the change in the revenue-to-GDP ratio also reflects the willingness of the government to maintain the tax burden at a relatively low level, in order to support economic growth in the medium and long term.

In fact, the revenue-to-GDP ratio passes from 45.6% in 2003 to 43.7% in 2004. Despite the resumption of more robust economic growth, the lagged impact of the 2001-2003 slowdown exerts downward pressures on tax revenues in 2004. This is due to the fact that the main types of taxes levied on corporate profits – the corporate income tax and the municipal business tax – are not directly linked to corporate profits in the current year, but are in fact related to a weighted average of current and past (up to five years) profit levels. Consequently, the high profits realized during the high-growth years 1997-2000 contributed to stabilize public finances during 2001-2003. However, from 2004 onwards, public finances will suffer the lagged impact of the lower profits (or even losses) realized during 2001-2003.

On the expenditure side, a certain stabilisation of the expenditure-to-GDP ratio occurs, albeit at a fairly high level. Indeed, the ratio passes from 44.9% in 2003 to 45.1% in 2004. Note, however, that in 2000, the expenditure-to-GDP ratio was as low as 38.7%.

It should nevertheless be noted that structural factors account for the failure to more rigorously curb public expenditure growth, in particular at the level of central government. On the one hand, unemployment continues to increase despite more sustained economic growth, and this has a negative impact on expenditure dynamics.

On the other hand, one must not forget that during the last ten years, the population of Luxembourg increased by more than 10%, while total employment increased by more than 30%. More than one job out of three is currently filled by a non-resident. These socio-demographic developments have a direct impact on public spending *via* an increased demand for public services and infrastructure.

Table 2

General government budgetary developments

in % of GDP	**2003**	**2004**	**2005**	**2006**	**2007**
	Net lending by sub-sectors				
General government	0.8%	-1.4%	-1.0%	-0.9%	-1.0%
Central government	-1.2%	-2.8%	-3.1%	-3.2%	-3.3%
Local government	0.1%	-0.1%	0.0%	0.0%	0.0%
Social security	1.9%	1.6%	2.1%	2.3%	2.3%
	General government				
Total receipts	45.6%	43.4%	44.6%	44.6%	44.7%
Total expenditures	44.9%	44.8%	45.6%	45.5%	45.7%
Budget balance	0.8%	-1.4%	-1.0%	-0.9%	-1.0%
Interest payments	0.2%	0.2%	0.1%	0.1%	0.1%
Primary balance	1.0%	-1.2%	-0.9%	-0.8%	-0.9%
	Components of revenues				
Taxes	29.4%	27.3%	28.4%	28.5%	28.6%
Social contributions	12.4%	12.3%	12.5%	12.4%	12.4%
Interest income	1.4%	1.3%	1.2%	1.3%	1.2%
Other	2.4%	2.6%	2.5%	2.4%	2.5%
Total receipts	45.6%	43.4%	44.6%	44.6%	44.7%
	Components of expenditures				
Collective consumption	12.3%	12.5%	12.4%	12.4%	12.3%
Social transfers in kind	5.2%	5.5%	5.5%	5.4%	5.4%
Social transfers other than in kind	16.0%	15.6%	15.7%	15.5%	15.5%
Interest payments	0.2%	0.2%	0.1%	0.1%	0.1%
Subsidies	1.7%	1.6%	1.7%	1.8%	1.8%
Gross fixed capital formation	4.8%	4.6%	4.9%	4.9%	4.8%
Other	4.6%	4.9%	5.3%	5.4%	5.8%
Total expenditures	44.9%	44.8%	45.6%	45.5%	45.7%

In addition, and in accordance with developments at the international level, spending on social transfers – in particular related to the health-care – increases sharply because technological progress raises costs instead of reducing them.

Furthermore, since central government co-finances Social Security (*via* current transfers between sub-sectors of general government), the persistence of a negative financing balance at the level of central government is also at least partially attributable to this development. Indeed, in 2004, the current transfers of central government to Social Security accounted for approximately 9% of GDP.

In order to understand the trajectory of the local government financing balance, it is important to point out that the negative effect on the balance caused by the reduction in the municipal business tax is largely compensated by increased VAT revenues *via* the transfers received from the '*Fonds communal de dotation financière*' (which is essentially a revenue-sharing instrument).

It should also be noted that the reduction in 2004 in the ratio between gross fixed capital formation and GDP is due to a one-off measure. In fact, in 2004, the government proceeded to the sale of a building to the European Parliament for a total amount of 60 million €. This transaction was recorded as a reduction of investment (i.e., negative gross capital formation).

II.3. Budgetary guidelines of the governmental programme

Following the general election of 13 June 2004, the new coalition government of Christian-democrats (CSV) and the Socialist party (LSAP) took office on 31 July 2004.

In the governmental statement of 4 August 2004, the incoming government presented the fundamental guidelines of the fiscal policy for the coming legislative period:

"During the coming legislative period, the government will take care to maintain stable public finances and it will continue to pursue a prudent fiscal policy that aims in particular at maintaining a rate of growth of public expenditure that is compatible with the medium-term rate of economic growth. At the level of the European Union, the government commits itself to respecting the objectives of the Stability and Growth Pact.

In order to achieve these goals in an uncertain environment, where the risk is not precluded that certain types of tax revenue will stagnate or even decrease, the government will not adopt any new measures that will have a significant impact on the overall level of public expenditure. The government will maintain the national debt at a low level in order not to increase debt service beyond measure. In principle, the government only envisages issuing new public debt in order to finance rail infrastructures.

Since the annual preparation of the draft central government budget is an essential instrument to ensure the control of the public finances, the government will carry out, as from the fiscal year 2005, a recasting of the budgetary procedure. This will imply moving the timeframe for finalization of the draft budget at the governmental level from August to October.

By shortening the lapse of time between finalization of the draft budget at the governmental level and the start of the fiscal year to which the draft budget refers, the government intends to enhance the quality of the revenue and expenditure estimates. In fact, this procedure allows estimates to take into account the most up-to-date economic forecasts elaborated by the national and international statistical organizations.

The procedure of the budgetary amendments is scrapped, implying that more resources will be made available for an even more exhaustive appraisal of ministries' expenditure proposals and for the preparation of the government's multi-annual investment spending plan.

All the investment projects – regardless of whether they are directly or indirectly financed by central government – will be subject to a detailed cost-advantage analysis in order to reduce the cost of public investments. From the early stages of planning, closer attention will also be paid to future operating costs, in order to more rigorously control government current spending".

II.4. The draft budget for the fiscal year 2005

On 20 October 2004, the government submitted to Parliament the draft budget for the fiscal year 2005. The salient features of the draft 2005 budget are presented below. In order to allow inter-temporal comparisons, figures for fiscal years 2003 and 2004 are also provided:

	General account 2003	*Approved budget 2004*	*Draft budget 2005*	*Change 04/05*	
				in €	*in %*
Total budget					
Revenues					
in million €	6,563.5	6,392.6	6,902.5	+509.9	+8.0%
in % of GDP	27.4%	25.1%	25.5%		
Expenditures					
in million €	6,563.2	6,480.9	6,991.5	+510.6	+7.9%
in % of GDP	27.4%	25.4%	25.8%		
Balance					
in million €	+333.5	-88.3	-89.0	-0.7	…
in % of GDP	+1.4%	-0.4%	-0.3%	…	…

Note: All amounts are in million €.

For a complete assessment of the overall trends in central government revenue and expenditures it is necessary to take into account – in addition to the revenue and expenditure information provided in the budget – the revenues and expenditures of the government special investment funds. Currently, there are 28 such funds.

A special fund is created by law and the law specifies the precise nature of the transactions that can be carried out by a specific fund. The special funds have been introduced to provide greater flexibility, as by their very nature, the annual time framework of the ordinary budget is not appropriate for certain types of government expenditures. In particular, this is the case for investment expenditures as the completion phase of projects is often stretching over several years. In principle, special funds receive annual endowments, which are recorded as expenditures in the ordinary budget. Unlike ordinary expenditures, the funds available in a special fund need not be spend within a single budget year but expenditures can be spread over several years. Furthermore, this implies that the balance available in a fund at the end of a budget year can be carried over into the next budget year.

Since according to the ESA95 methodology a reduction of budgetary reserves is treated in a way similar to any other current expenditure, the variation in the special funds' balances must be added to the balance registered in the draft budget for 2005, in order to obtain the central government's net budgetary position according to ESA95. After making this adjustment, the central government balance is thus close to

–800 million € (-2.9% of GDP). It should be noted that at the end of the fiscal year 2005, the reserves accumulated by the special funds will amount to 3.6% of GDP.

The balance of the government's special funds is forecast to develop as follows:

Special fund	*Balance on 31-12-2004*	*Balance on 31-12-2005*	*Change*
Fund for the development of social and family-related infrastructures	111.4	42.8	-68.6
Fund for public health and sanitary investments	65.5	57.2	-8.3
Fund for the development of hospital infrastructures	149.6	81.7	-67.9
Employment fund	81.6	29.5	-52.1
Fund for the development of administrative infrastructures	199.2	89.9	-109.3
Fund for the development of school infrastructures	245.0	185.5	-59.5
Fund for the development of roads and motorways	42.3	11.1	-31.2
Fund for the development of the rail infrastructure	151.4	122.5	-28.9
International rail links	51.7	16.7	-35.0
Other special funds	571.1	329.7	-241.4
TOTAL	**1,668.7**	**966.5**	**-702.2**
in % of GDP	6.5%	3.6%	…

Note: All amounts are in million €.

The government is attributing priority status to the following areas:

- The government will continue investing in the extension and the modernisation of infrastructures (rail and road networks, telecommunication facilities). Consequently, central government investment expenditure will further increase and exceed 800 million € (3% of GDP).

- The government will continue to foster the development of social, medical and family-related infrastructures in order to guarantee the provision of a high quality health-care system. In addition, the government will devote additional efforts to increase the supply of day-care facilities in order to facilitate parents' labour market participation.

- The government is fully aware of the crucial role played by preschool, primary and secondary education for the future development of the Luxembourg society, and therefore – and in the interest of sustainable development – the government will continue to provide adequate financial and human resources to the education sector.

- The government attaches great importance to the strategic issues related to the rapid and coherent development of new information and communication technologies, as these clearly enhance the competitiveness of the Luxembourg economy. At the general government level, the *e-Luxembourg* programme focuses on increasing administrative efficiency and providing the general public with easier access to public services.

- The government will also provide greater financial support for the development of higher education at the recently established *Université du Luxembourg* and for the development of research activities by the public research centres that work in collaboration with the National Research Fund and the private sector.

- The government expresses its solidarity at the international level by increasing public development aid. In 2005, development aid will reach 0.85% of gross national income (GNI) and the government intends to persevere in its efforts to achieve the medium term target threshold of 1% of GNI.

- The government confirms its commitment to the obligations resulting from the Kyoto protocol and from the burden-sharing agreement at the EU-level. The government is attributing priority status to those measures that are contributing to the reduction of greenhouse gas emissions at the national level, in particular *via* providing an adequate incentive structure. These actions are complemented by the use of the so-called 'flexible' mechanisms. Thus, the draft 2005 budget provides the government with the necessary budgetary resources in order to implement its emissions-reduction strategy, both at the national and the international level.

II.5. The medium-term forecast, 2005-2007

The budget deficit of general government will reach its peak in 2004, and it is envisaged that as from the fiscal year 2005, the budget balance will improve gradually. Nevertheless, convergence towards the medium term objective is rather slow and the net budgetary position of general government will not reach a position close to balance or in surplus over the forecast horizon.

The balance of general government will stabilise around –1% of GDP during the period 2005-2007. At the level of the sub-sectors, central government will remain in deficit (> -3% of GDP) throughout the forecast horizon. Under the terms of the legal constraints to which local government is subjected, it is forecast that their budgetary position will remain close to balance throughout the forecast horizon. Social Security is generating structural surpluses. The change in the Social Security surplus is determined by favourable developments on the labour and the implementation of certain structural measures decided in November 2004 by the general assembly of the union of health-care insurance schemes. As a result, its surplus increases to 2.1% of GDP in 2005 and to +2.3% in 2006 and 2007.

The improvement of the general government budget balance is due primarily to the increase in the revenue-to-GDP ratio. The expenditure-to-GDP ratio increases from 44.8% in 2004 to 45.6% in 2005 and thereafter, it stabilises around this level.

The revenue-to-GDP ratio increases from 43.4% in 2004 to 44.6% in 2005 for then stabilises at this level in 2006 and 2007. The sharp fall observed in 2004 in the share of corporate taxes continues to be felt in 2005 *via* a base effect. In addition, corporate taxes collected in 2005 are largely determined by the corporate profit levels realized during the period of weaker economic growth.

The medium-term forecast of general government budgetary developments is subject to a certain margin of error, owing to the uncertainties pertaining to the development of corporate income taxes. Nevertheless, over the course of recent fiscal years, the structure of tax revenue has gradually changed and as a consequence, the reliance on this rather volatile source of income has actually decreased. The relative share of indirect taxes (in particular VAT and excise duties) has increased and personal income tax revenue is also increasing at a sustained rate. The latter phenomenon may be explained by a gradual change of the structure of the distribution of taxable income in favour of income brackets subject to high marginal rates (for instance an increase in the number of the double-earner households, increase in the share of highly-skilled employment in the financial sector, increase in the share of rental income as a result of a very dynamic housing market).

On the revenue side, the general assembly of the union of health-care insurance schemes decided in November 2004 to implement a certain number of structural measures with a view to raising additional revenues and to reduce the rate of growth of expenditures. The government will analyse the efficiency of these measures before deciding whether additional measures are necessary.

At the level of consumption expenditure, a certain deceleration in the growth rate occurs as a result of a moderate wage policy in the wake of the expiry in 2004 of the previous public sector wage bargaining agreement.

In addition, the multi-annual investment spending programme 2004-2008, foresees that central government will maintain investment spending at a high overall level. In fact, the ratio between (gross) public investment and GDP will remain in the region of 5% throughout the forecast period.

The financial situation of the sickness and maternity insurance system

Despite the transfer in 2004 of 130 million € from the pension funds, the financial situation of the sickness insurance system will continue to deteriorate in 2005. In fact, the wedge between income and expenditure growth is expected to widen in 2005 and thus – assuming no policy change – a deficit in the region of 100 million € is likely to materialize.

As regards the financial situation of social transfers paid in cash, the draft law n°5322 endorsing the proposals made by the Tripartite Coordinating Committee of 24 November 2003 will be finalised shortly by the government. Implementation of these proposals will contribute to improving the financial balance of social transfers paid in cash.

However, in the short-term the most urgent problem is related to the financial balance of social transfers provided in kind. In fact, for 2005 a cumulative deficit of 152 million € was forecast. Since the reform passed on 27 July 1992 regarding the financing system of benefits in kind, financial problems have appeared repeatedly.

On the one hand, operations are clearly under-financed. On the other hand, a solution could be found on the demand side, to the extent that an excessive consumption of medical services and medication could be curbed, but under the condition that the equitable access to care is preserved and that medical progress is not hampered.

In order to balance the 2005 budget of the sickness and maternity insurance system, the general assembly of the union of health-care insurance schemes decided at its 9 November 2004 meeting to implement the following remedial measures:

- An increase in the contribution rate for health-care from 5.1% to 5.4%. This increase in the contribution rate implies that the financial participation of central government – which co-finances operations – increases by 26.8 million € in 2005.
- The direct participation in total costs by hospital patients will increase from 9.54 € to 11.45 € per day.
- The number of the laboratory analyses is limited to 12 per prescription.

To conclude, the government has launched a broad-based dialogue between all parties involved in order to achieve a more efficient control of health-related expenditures.

III. PUBLIC DEBT AND RESERVES: A POSITIVE NET BALANCE

III.1. Central government financial situation

The appraisal of the financial situation of central government is incomplete if one only looks at public debt – which remains at a very low level – without taking into account the existence of the considerable reserves. These reserves were built up during the period of rapid economic growth that yielded a string of large budget surpluses. In fact, these surpluses were largely put in reserve, instead of re-injecting them into the budgetary circuit in order to finance current expenditure.

The general account (*compte général*), which closes at the end of the fiscal year, provides detailed information regarding the financial resources of central government. The government's general accounting plan matches resources to their uses, hence providing the possibility to establish the patrimonial situation of central government in the shape of a financial statement.

On 31 October 2004, this statement looked as follows:

Resources (liabilities):

• Government own resources (reserves and counterpart of financial assets)	4,907 mio. €
• Third party assets deposited with the government	265 mio. €
• Third party assets borrowed by the government (net public debt)	527 mio. €

Uses (assets) :

• Bank financial assets	2,987 mio. €
• Non-bank financial assets	2,291 mio. €
• Balance (net borrowing)	421 mio. €

The analysis of the general account for the fiscal year 2003 – which has been submitted to Parliament for approval by the government – shows that at the end of the fiscal year 2003, central government had at its disposal, in addition to borrowed funds, reserves totalling 2,764 million € (> 11,5% of GDP). These reserves correspond to the cumulative sum of the net budget surpluses realised during the fiscal years 1944 to 2003.

Of these, 2,120 million € have been transferred to the special funds i.e., they have been used to realise the specific objective for which each special fund was set up via a special law. On the basis of the final result of the fiscal years 2002 and 2003, a supplementary endowment to the special funds of 59 million € and 79 million € respectively is planned. Over the course of a fiscal year, the resources available in the special funds fluctuate due, on the one hand, to the inflow of the budgetary endowments, and, on the other hand, the outflows relating to the payment of completed works. At the end of October 2004, resources available in the special funds amounted to 2,099 million €.

The special funds are typically used to finance projects that by their very nature are not appropriate to be dealt with via the ordinary budget. In fact, these are typically large investment projects that take several years to complete and where the relevant expenditures are spread out over several fiscal years.

The expenditures of the special funds are not tied to a specific fiscal year and funds available at the end of a fiscal year can be carried over to the next. This allows the government to build up reserves in the special funds that can be used in order to finance future investment projects.

Due to the existence of these sizeable reserves, the ordinary central government budget is less sensitive to fluctuations in economic activity. Furthermore, the existence of the reserves allows the government to maintain a high level of investment spending, even when the economy is slowing down. Consequently, the future deficits forecast in this update are offset by the existing reserves.

The balance of these reserves, amounting to 644 million € at the end of the fiscal year 2003, has not been allocated to any special purpose. This is the budgetary reserve that is the cumulative sum of budget surpluses realised since 1944. This reserve, whose fluctuations are a function of the central government balance, is used to ensure that the financial situation of central government is balanced, for instance in circumstances where revenues decrease due to an economic slump.

The existence of the budgetary reserve provides additional degrees of freedom to the government in order to react to a deterioration of the financial situation of central government without having to use alternative channels, e.g. issuing new debt or increasing the tax burden.

The budgetary reserve is used to carry out payments relating to previous fiscal years in cases where the settlement was not previously possible for technical reasons (145 million €), or to overcome short-term cash-flow problems caused by the non-synchronicity of government receipts and expenditures. On 31 October 2004, it amounted to 515 million €.

Furthermore, the government has occasionally acquired financial assets via participations or loans given. At the end of October 2004, the value of these assets amounted to 2,291 million €. The accounting counterpart of these assets increases the government's own resources.

The sum of the government's own resources, borrowed funds and third party assets deposited with the government are invested in a variety of bank and non-bank financial assets, and the returns that they are yielding represent an additional source of income for the government.

The balance between the assets and liabilities, amounting to some 421 million € at the end of October 2004, represents net government borrowing and is equivalent to the amount of uncovered public debt (Treasury bills and loans).

III.2. Public debt

Article 104 of the EC Treaty stipulates that the ratio of public debt to GDP must not exceed 60%. Furthermore, the level of public debt determines the net borrowing capacity. Consequently, it is particularly important to monitor debt levels and the ensuing financial burden.

Central government debt

Monetary signs

The quantity of monetary signs issued by the Treasury as coins has increased rapidly since the replacement of Belgian and Luxembourg francs coins with euro coins.

On 31 October 2004, euro coins worth 101.2 million € were in circulation. Furthermore, francs coins worth 5.55 million € have, to this date, not yet been returned. The Treasury is committed to convert these coins until 31 December 2004. In addition, the Treasury will reimburse in 2005 the residual amount of 0.61 million € relating to a Treasury bond emitted per contra francs notes issued by BIL.

Treasury bills

The Treasury bills issued by the government are not actually reimbursable funds collected by the government. Instead, these bills enact long-term commitments *vis-à-vis* international financial institutions (EBRD, UNCTAD, IFAD, GEF, IDA, MIGA). These bills do not carry interest and they are paid if and when they are due. On 31 October 2004, outstanding bills totalled 14.6 million €. The payment of the Treasury bills is carried out via the special fund dedicated to the repayment of the public debt.

On 31 October 2004, available reserves in this fund amounted to 0.3 million €, implying that the net debt in the form of Treasury bills is equal to 14.3 million €.

Central government loans

The government has not issued new loans during the fiscal years 1998 to 2004. The government intends to repay the public debt as and when it is falling due.
On 31 October 2003, gross public debt in the form of government loans amounted to 404.51 million € (1.6% of GDP). Of these, 105.39 million € are currently covered by the reserves of the special fund dedicated to the reimbursement of the public debt, implying that the net debt in the form of government loans totals 299.12 million €.
A breakdown of total outstanding public debt by financial instruments produces the following situation:

- Linear loans (OLUX): 96.94
- Bank loans: 3.06%.

The public debt contracted by the government is almost entirely denominated in euros. Only a single loan – redeemable in 2004 – comes under the category of foreign debt because of the characteristics of the creditor. Foreign debt amounts to 3.06% of the total.
Other features of the public debt as of 31 October 2003 are as follows:

- Weighted average interest rate: 6.03%
- Debt per capita: 895.73 €
- Average duration: 1 year and 99 days

On this basis, central government debt and the ensuing financial burden will develop as follows:

year	*Public debt outstanding on 31 December (in million €)*	*Financial burden : capital plus interest (in million €)*
2003	435,49	248,31
2004	392,12	71,22
2005	248,59	169,46
2006	94,45	168,58
2007	0	99,64

Over the four fiscal years 2004 to 2007, the repayment of the principal and the interest of the public debt will impose a total cost of 569.91 million €, or on average 142.48 million € per fiscal year. As part of this burden is already covered by the reserves accumulated in the special fund dedicated to the repayment of the public debt, the actual financial burden only amounts to an average of 63.7 million € for the fiscal years 2004 to 2007.

Table 3

General government debt developments

in % of GDP	2003	2004	2005	2006	2007
Gross debt level	5.3%	5.0%	5.0%	4.6%	4.5%
Central government	2.6%	2.6%	2.7%	2.4%	2.4%
Local government	2.5%	2.4%	2.3%	2.2%	2.1%
Social security	0.2%	0.0%	0.0%	0.0%	0.0%
Change in gross debt	-0.1%	-0.2%	-0.1%	-0.3%	-0.1%
	Contributions to change in gross debt				
Primary balance	1.0%	-1.2%	-0.9%	-0.8%	-0.9%
Interest payments	0.2%	0.2%	0.1%	0.1%	0.1%
Nominal GDP growth	1.2%	-1.2%	-1.1%	-0.6%	-0.9%

For the fiscal years 2004 and 2005, the government has been or will be authorized to issue new debt up to a total of 120 million € in 2004 and 200 million € in 2005 in order to finance investment projects via special funds dedicated to roads and motorway construction as well as to railroads construction. Given that the overall financial situation of central governments yields a positive net balance, the use of debt financing is not unavoidable. However, in the short term, debt financing is justified in order to benefit from low interest rates, while in the medium term it guarantees a higher degree of liquidity to the Treasury given the ambitious spending plans as set out in the multi-annual capital spending programme. Furthermore, this update of the stability programme assumes – in line with the multi-annual capital spending programme – that the central government will issue new debt of up to 150 million € per annum in 2006 and 2007. This information is included in Table 3, which furthermore assumes that central government will continue to reimburse the existing debt as planned.

Local government debt

The conditions under which local authorities may contract new loans are very stringent. In fact, they may only contract new loans to finance extraordinary expenditures, and only if no other source of finance is either available or economically efficient. In addition, local authorities must provide guarantees regarding their ability to repay the debt. The budgets of the local authorities must be approved by the Home Secretary (*Ministre de l'Intérieur*) who, if necessary, amends the budget in order to ensure that it complies with the relevant rules and regulations. Furthermore, the legislation stringently regulates the conditions under which local authority syndicates may contract new loans.

The level of outstanding debt of the Luxembourg local authorities remains small in relation to GDP (roughly 2.5% of GDP). The aggregate debt of the local authorities totalled 605 million € at the end of 2003.

Social security debt

The Luxembourg social security has recently generated a string of structural surpluses and consequently its debt tends towards zero.

IV. CYCLICALLY-ADJUSTED BALANCE, SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS UPDATE

IV.1. The cyclically-adjusted balance

Over the period 2003-2005, the output gap is close to zero and hence there is almost no difference between the general government nominal and cyclically-adjusted balances. The cyclically-adjusted balance switches sign at the same point in time than the nominal balance.

In 2006 and 2007, the output gap is again increasing. This leads to an improvement in the cyclically-adjusted balance, although it remains negative.

Methodological note : the cyclically-adjusted balance and the budget sensitivity parameter

The cyclically-adjusted balance is the difference between the nominal balance and the cyclical component. It can be written as follows:

$$SS = SN - \varepsilon * OG$$

where SS = cyclically-adjusted balance (in % of nominal GDP), SN = nominal balance (in % of GDP) and OG = output gap (percentage gap between actual and potential GDP).

The parameter ε is measuring the sensitivity of the general government balance to cyclical fluctuations as measured by GDP. Following STATEC, this parameter is estimated to amount to 0.45 in the case of Luxembourg. This value is lower than that used for Luxembourg by the European Commission (0.60). Furthermore, the Luxembourg Central Bank – using a method based on a finer breakdown of the various components – derives a value for ε close to 0.35. Note that a lower value of ε implies that the nominal balance is less sensitive to cyclical fluctuations and thus the closer the correspondence between the nominal and cyclically-adjusted balances.

The sizeable upward revisions to the 2003 and 2004 GDP figures also entailed revisions to the output gap figures for these years. The output gap measures the difference between observed and potential GDP. Potential GDP corresponds to the hypothetical output that could be produced if all production factors (labour and capital) were fully used, without exerting upward pressure on prices and wages. There are different methods for computing potential GDP. In full compliance with community-level recommendations, STATEC is using the so-called ‘production function method’ to compute potential GDP. Furthermore, potential output is computed over the entire forecasting horizon and taking into account the forecast values for the other main aggregates (e.g. employment, capital stock, trend productivity).

In Spring 2004, STATEC estimated that the 2003 output gap was negative (-2%). In late October 2004, the upward revisions of actual GDP (2% for 2003 and 3% for 2004) entailed that actual and potential GDP figures are fairly close to each other (because potential GDP revisions were minor). Hence, the output gap will only become negative in 2005. Note that STATEC estimates potential GDP growth to run at 4% per annum since 2002 i.e., roughly one percentage point lower than the potential growth rate prior to 2002. If it turns out that potential growth was indeed higher (close to the 5% level observed during the 1990s), the output gap would turn negative as early as 2003.

Note that because of the very low unemployment rate in Luxembourg, the fraction of public spending that is directly related to cyclical fluctuations is relatively small. In fact, unemployment benefits and active labour market policies only account for roughly 3% of public spending.

Table 4
Cyclical developments

in % of GDP	2003	2004	2005	2006	2007
GDP growth at constant prices	2.9%	4.4%	3.8%	3.3%	4.3%
Actual balance	0.8%	-1.4%	-1.0%	-0.9%	-1.0%
Interest payments	0.2%	0.2%	0.1%	0.1%	0.1%
Potential GDP growth	4.2%	4.2%	4.1%	4.2%	4.2%
Output gap	-0.1%	0.1%	-0.2%	-1.0%	-1.0%
Cyclical budgetary component	0.0%	0.0%	-0.1%	-0.5%	-0.5%
Cyclically-adjusted balance	0.8%	-1.4%	-0.9%	-0.5%	-0.6%
Cyclically-adjusted primary balance	1.0%	-1.3%	-0.8%	-0.4%	-0.5%

On the other hand, revenues and in particular tax revenues are highly dependent on cyclical fluctuations. However, an important part of tax revenues is related to cyclical developments with a time-lag of 2-5 years. The methodology used to compute cyclically-adjusted balances is currently not capable to fully account for the effect of time-lags in tax collection. This means that when growth is accelerating, the cyclical component is under-estimated and hence the cyclically-adjusted deficit is overestimated.

IV.2. Sensitivity analysis

The analysis of future budgetary developments is subject to a high degree of uncertainty. The sensitivity analysis presented below examines the impact on public finances of changes to the underlying economic growth assumptions, thus establishing a confidence bound around the central projection.

Two alternative economic growth scenarios are examined: in the first case, economic growth is lower than set out in Chapter I and in the second case, economic growth is higher (+ and – 0.5% in relation to the STATEC central forecast in Table 1).

It should be noted that the two alternative growth scenarios should not be interpreted as providing lower and upper bounds for GDP growth. They are purely technical assumptions and their sole purpose is to demonstrate the sensitivity of the public finance forecasts to changing economic conditions.

	2005	*2006*	*2007*
GDP growth rate			
'baseline'	3.8%	3.3%	4.3%
'low growth' scenario	3.3%	2.8%	3.8%
'high growth' scenario	4.3%	3.8%	4.8%
General government budget balance			
'baseline'	-1.0%	-0.9%	-1.0%
'low growth' scenario	-1.2%	-1.2%	-1.2%
'high growth' scenario	-0.9%	-0.7%	-0.7%

If economic growth is lower than expected, the general government budget balance deteriorates by 0.2-0.3% of GDP and the overall deficit will increase to around –1.2% of GDP.

On the other hand, if economic growth turns out to be higher than expected, the general government budget balance will improve by 0.1-0.3% of GDP. In 2005, the effect on the budget balance of higher than expected economic growth is relatively less pronounced as the main reasons accounting for the deterioration of the general government financial situation in 2005 are actually due to economic circumstances in previous years (2002-2004).

Besides the uncertainty regarding future economic developments, budgetary developments are also likely to be affected by a series of other factors some of which are briefly discussed below.

In the absence of a public sector wage bargaining agreement covering the years 2005-2007, this programme assumes that wages and salaries in the public sector will increase only slightly in real terms (+0.5% per annum in addition to the automatic increases as a result of the wage indexation mechanism).

The trajectory of investment is determined by the multi-annual investment spending framework. These projections are based upon a certain number of assumptions, for instance regarding the speed at which investment projects are completed. It is therefore possible that for purely technical reasons (e.g. bottlenecks) certain investment projects will stretch over a longer than expected period. The government also has considerable discretionary powers to control the expenditures of the special funds should the budgetary situation of general government necessitate such a step.

Furthermore, in November 2004, the general assembly of the union of health-care insurance schemes decided upon – besides the increase in contribution rates – a certain number of structural measures to reduce the rate of growth of social transfers provided in kind. As at this point in time it is rather difficult to precisely quantify the impact of these measures, this programme is based on a technical assumption that these measures will not affect planned expenditure in 2005-2007.

IV.3. Comparison with the 5th update of the stability and growth programme

At the level of the growth rate of GDP and the budget balance of general government, the divergences from the previous update are quite sizeable in absolute terms for the years 2003 and 2004. However, the sign of the forecasting error is positive, implying that the outlook presented in the previous update was rather prudent.

The upward revisions to GDP growth figures for 2004-2005 has to be interpreted in the light of the improved growth performance of the world economy, which had positive repercussions on Luxembourg. In autumn 2004, the main international organisations did not foresee a sharp deterioration of the world economic outlook in 2005. Consequently, STATEC estimates that the GDP growth rate will remain in the region of 4%. However, there are a number of downside risks attached to that forecast. For instance, slower economic growth in the United States and China could generate negative spillover effects for world economic growth, the recovery of the eurozone economies could continue to be slow or could even stall. Further risks are related to oil price and exchange rate (€/$) developments. Finally, for 2006, the difference between the economic growth rate of the current and of the previous programme is negligible.

In 2003, the general government budget balance amounted to –0.8% of GDP i.e., an improvement of 1.4 percentage points relative to the previous update. Two thirds of this sizeable improvement in the budget balance are due to lower than previously expected public expenditures (especially public consumption and cash social transfers) and one third of the improvement is due to under-estimated revenues (especially of indirect taxes).

Table 5
Divergence from previous update

in % of GDP	**2003**	**2004**	**2005**	**2006**
	GDP growth			
Previous update	1.3%	1.2%	2.0%	3.0%
Latest update	2.9%	4.4%	3.8%	3.3%
Difference	1.6%	3.2%	1.8%	0.3%
	Actual budget balance			
Previous update	-0.6%	-1.8%	-2.3%	-1.5%
Latest update	0.8%	-1.4%	-1.0%	-0.9%
Difference	1.4%	0.4%	1.3%	0.6%
	Gross debt levels			
Previous update	4.9%	5.2%	5.0%	4.4%
Latest update	5.3%	5.0%	5.0%	4.6%
Difference	0.4%	-0.2%	0.0%	0.2%

For the fiscal year 2004, the latest update envisages a budget balance of –1.4% of GDP, i.e. an improvement of +0.4% in relation to the previous update. The improvement in the 2004 budget balance is not however proportional to the upward revision of GDP. This observation confirms that public finances do not evolve in parallel with the economic situation, but that on the contrary, the economic slowdown of 2001-2003 affects the budget balance with a delay of 2 to 3 years.

Regarding the fiscal years 2005 and 2006, the upward revisions of the budget balance of general government amount to respectively +1.3% and +0.6%. These revisions are due to the increase in the budget surplus of Social Security that is resulting directly from the improvement of the macroeconomic framework and from the increase as from 1 January 2005 in the contribution rate to sickness and maternity insurance. In addition, the 2005 budget balance of central government improved by 0.6% of GDP. This improvement is partly related to the upward revision of economic growth in 2005 and partly to the revisions (*ex post* – revisions of the National Accounts) of growth rates in 2003-2004 (since the economic situation affects tax revenues with a delay of 2-3 years).

At the level of the national debt, the forecasting error is fairly sizeable for the years 2003 and 2004, in view of the very low absolute level of the national debt. Nevertheless, the more rapid debt increase than anticipated in 2003 is compensated partially by the less rapid increase in 2004. For the financial years 2005 and 2006, the differences in relation to the previous update are negligible.

V. THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

Since the presentation in 2001 of the actuarial and financial evaluation carried out by the ILO, the financial situation of the general pension insurance system has been affected by the following developments:

- The deterioration of the world economic outlook and the resulting deceleration of employment growth;
- The increases in benefits decided by the '*Rentendësch*' in 2002, which entailed an increase in benefits of approximately 10%;
- The amendment in 2004 of the payment method for pension rights accrued on the basis of 'baby-years': until 2004, central government paid the pension contributions when parents spent time rearing their children. As from 2004, central government pays for the pension rights accrued on the basis of 'baby-years' at the moment when the parents start benefiting from the pension.

Although these recent developments undermine the long-term financial prospects of the pension system, it continues to benefit from rather favourable framework conditions. However, one must be aware that the large number of cross-border workers in Luxembourg will entail a continuous increase in the transfers of pensions abroad.

In recent years, these transfers of pensions have already increased sharply, passing from 10.1% in 1985 to about 17.3% in 2003. The transfers occur mainly when former immigrant workers return to their countries of origin.

The influx of cross-border workers affects the age distribution of the economically active population insured under the Luxembourg general pension insurance scheme: cross-border workers represent 40% of all employed aged 24-41 years and 30% of all employed aged 21-55 years. It is highly likely that the majority of cross-border workers will continue working in Luxembourg until their retirement and that they will thus benefit from a retirement-pension under the Luxembourg pension scheme. Consequently, it is estimated that as from 2020 onwards, around 40% of the new pensions will be allocated to former cross-border workers. If one is adding the pensions of the former immigrant workers who have returned to their countries of origin, it is likely than in about 20 years, some 45% of all pension benefits paid by the Luxembourg pension system will be transferred abroad.

Under the assumption that pensions transferred abroad will have to be financed solely by social contributions and taxes, the presence of cross-border and immigrant workers on the Luxembourg labour market will entail a very heavy future burden for the public finances. Fortunately, since the late 1980s, Social Security has generated a string of surpluses that have been accumulated in a reserve fund. The accumulation of reserves coincided with the massive inflow of cross-border workers and counter-balances to some extent the future liabilities resulting from this inflow. On 31 December 2003, the reserves of the pension fund amounted to 5,662 million €, i.e. 23.6% of GDP. One possible option the safeguard the financial equilibrium of the pension fund in the long run could be to link the amount of the pension reserve to the net present value of the pension claims of the recipients residing abroad.

In the first half of 2005, the *Inspection générale de la sécurité sociale* (IGSS) will carry out a long-term projection regarding the financial situation of the pension insurance system. This work will be carried out within the remit of the 'Ageing' working group of the Economic Policy Committee (EPC). At the same time, the IGSS will carry out an actuarial assessment of the financial situation of the general pension insurance scheme over the medium-term window 2006-2013. Against the background of these studies, all aspects relating to the sustainability of the pension insurance system will be evaluated, including the transfer abroad of pension rights accrued by cross-border and migrant workers.

ANNEX

Basic assumptions

	2003	2004	2005	2006	2007
Short term interest rates (annual average)	2.30	2.20	3.00	3.50	3.50
Long term interest rates (annual average)	4.10	4.00	4.50	4.75	5.25
€/USD exchange rate (1 € = … $)	1.13	1.23	1.23	1.23	1.23
World growth (non EU-15)	…	…	…	…	…
EU-15 GDP growth rate	0.7%	2.4%	1.9%	2.2%	2.2%
Economic growth in the relevant foreign markets	0.7%	5.8%	6.0%	5.1%	5.1%
World import prices (export prices of the main trading partners, in €)	…	…	…	…	…
Oil prices ($/barrel)	28.80	38.30	41.50	36.90	35.00