

**FOR
AGENDA**

SM/04/113
Supplement 1

April 24, 2004

To: Members of the Executive Board

From: The Secretary

Subject: **Luxembourg—Staff Report for the 2004 Article IV Consultation**

The attached supplement to the staff report for the 2004 Article IV consultation with Luxembourg (SM/04/113, 4/7/04) has been prepared on the basis of additional information and is tentatively scheduled for discussion on **Wednesday, April 28, 2004**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Luxembourg indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Decressin (ext. 37140) and Mr. Nadal De Simone (ext. 38335) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat forthwith; and to the European Commission and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

LUXEMBOURG

Staff Report for the 2004 Article IV Consultation

Supplementary Information

Prepared by European and Policy Development and Review Departments

Approved by Alessandro Leipold and Carlos G. Muñiz

April 23, 2004

1. This supplement reports on data on the fiscal outcome for 2003 that has become available since the issuance of the staff report. Other economic indicators continued to evolve broadly in line with staff projections. The new information does not change the thrust of the staff appraisal.

Fiscal developments and outlook

2. According to data submitted by the authorities to Eurostat, the general government deficit was contained to 0.1 percent of GDP in 2003, about 0.8 percentage point of GDP lower than the staff's projection and 0.5 percentage point below the earlier official estimate (Table). However, as elaborated below, much of the overperformance is likely to be temporary and the authorities are maintaining the 2004-06 Stability Program (SP) targets. The modest revenue overperformance in relation to the staff's projections (but not to the SP)—stemming from higher VAT and excise tax receipts—does not materially alter the staff's revenue projections for 2004-06. Expenditure, however, was appreciably lower as major investment projects were delayed, contrary to the authorities' and the staff's assumptions. At this stage, there are no plans to cancel these projects. Considering further that social spending grew faster than the staff's projection in 2003, the staff continues to believe that the SP medium-term targets remain at risk (including, possibly, a temporary breach of the Maastricht 3 percent ceiling in 2005), unless the plans for discretionary spending are scaled down or entitlement programs reformed.

Table. Luxembourg: General Government Finances, 2002-03
(In percent of GDP, unless otherwise indicated)

	2002			2003		
	SP 1/	Staff Est. 2/	Update 3/	SP 1/	Staff Est. 2/	Update 3/
Revenue	46.7	46.7	47.0	47.1	46.4	46.6
Expenditure	44.2	44.2	44.3	47.7	47.4	46.8
Balance	2.4	2.4	2.7	-0.6	-1.0	-0.1
Memorandum items:						
Social expenditure growth (in percent)	10.6	10.6	10.4	9.3	9.3	9.8
Gross debt	5.7	5.7	5.7	4.9	4.9	4.9

Sources: Eurostat; and IMF staff estimates and projections.

1/ SP refers to the authorities' Stability and Growth Program update of November 2003.

2/ See Staff Report, Table 2.

3/ Notification to Eurostat by STATEC.

3. The draft law that broadens the scope for the investment of social security assets (see Staff Report, SM/04/113, §14) has recently been passed.

Other issues

4. In accordance with IMF Executive Board Decision 144-(52/51) dated August 14, 1952, the authorities formally notified the Fund on April 15, 2004, of a number of measures taken for the preservation of national and international security, in conformity with various EU Council regulations that give rise to exchange restrictions subject to Fund jurisdiction (see EBD/04/33). In addition to the measures listed in the Staff Report (SM/04/113, Appendix I), restrictions relating to Somalia (per EU Council Regulation No. 147/2003), the Democratic Republic of Congo (per EU Council Regulation No. 1727/2003), and the assets of some residents of Kuwait and Iraq are in place; however, restrictions relating to Angola, mentioned in the Staff Report, are no longer in place.