

N°5 / November 2009

2010 Budget pursues countercyclical policy

Luxembourg Minister of Finance Luc Frieden presented the draft budget for 2010 to Parliament on September 29. The budget contains expenses in the amount of EUR 12.3 billion and versus estimated tax revenues of 10 billion. In order to maintain its policy of investment in times of crisis, the Government will resort to a loan of EUR 1.5 billion, of which 1.3 billion will be used for central Government expenditures and EUR 200 million for the funding of the rail and road infrastructure.

According to the draft, public debt will reach EUR 7 billion at the end of 2010, the equivalent of 19.8% of GDP. In previous years, debt had only amounted to around 6% of GDP. It must however be considered that EUR 2 billion were used in order to rescue banks in 2008.

In the long run however, the country aims to avoid debt. "We want to maintain control over the deficit and debt. There is no question of reaching the 60% public debt authorized by the Maastricht criteria. Luxembourg is a small country, and it would be difficult to recover too high a debt. This would require massive tax increases detrimental to the population", argued Mr. Frieden. Hence the idea of progressively tightening the belt when the economy is recovering: "It is our duty to reduce the deficit in 12 to 24 months and we will gradually withdraw support measures for the economy," the Minister explained.

Three tracks will be followed in the medium term. First, the costs for operating the public apparatus should not increase beyond inflation. The investment costs will be stabilized at EUR 1.9 or 2 billion. The allocation of social transfers will be reviewed to focus even more strongly on the most vulnerable segments of society. There is a positive message however: although unemployment and the deficit are growing, the numbers remain below the data recorded in the neighbouring countries.

Economic results revised upwards

Revised figures by STATEC show that the contraction of GDP in the second quarter is now estimated of -5.3% as compared to the same quarter in 2008. Compared to the first quarter 2009, the contraction has slowed to -0.3%. This is considerably less than the -2.9% in the fourth quarter of 2008 and the -1.7% in the first quarter 2009. It seems therefore that the economy had reached its lowest point during the fall and winter of 2008 and is on its way to recovery. For the whole of 2008, the economy seems to have stagnated at 0%, versus an earlier estimate of a contraction of -0.9%. The European Commission estimates that the Luxembourg economy will grow by 1.1% in 2010.

Exports have continued to fall during the second quarter of 2009 by -13.8% as compared to a year earlier, whereas imports have shrunk by 13.7%.

Inflation has again been slightly negative with a monthly decline of 0.11% in September, thus reaching 0.02%.

Unemployment has grown marginally in September from 5.6% to 5.7%, thus reaching its highest level of the year.

Luxembourg banking sector shows signs of recovery

On the basis of provisional figures, the Luxembourg financial supervisory authority (CSSF) estimates profit before provisions of the Luxembourg banking sector at EUR 4,8 billion as of September 30, 2009, up 27.8% from the previous year.

On the income side, the refinancing conditions remain favourable, especially as far as interest income is concerned. This positive development is however offset by a decrease in dividend income as well as by a drop in commissions of 14.8% year-on-year. Nevertheless banking income rose by 13% from September 2008 to September 2009. Thanks to a reduction in general expenses by 3.6%, the favourable result on profit before provisions was achieved. At the end of the 3rd quarter, 146 banks were registered in Luxembourg.

As far as the fund industry is concerned, total net assets of undertakings for collective investment (UCIs) and specialized investment funds (SIF) have reached EUR 1774 billion on September 30, versus EUR 1740 billion a month earlier, i.e. a rise of 1.98% in one month. As compared to the same month in 2008, the volume of net assets has declined by 1.27%. The number of UCIs and SIF has reached 3457 in September, as compared to 3449 a month earlier.

Launch of LU-CIX : “Connecting Europe in One Spot!”

Minister for Communications and Media François Biltgen launched the new commercial Internet Exchange point “LU-CIX” on October 15. In its first year of existence, LU-CIX expects to reach 25 customers, either Internet access providers or suppliers of content or applications. At a time when the major European Internet hubs located in Amsterdam, Frankfurt and London are facing performance and congestion problems, LU-CIX positions itself as an attractive niche player.

It offers a real alternative to the established Internet highways and Internet Exchange points. The presence of numerous high profile companies such as Skype, PayPal or Real Networks is of course beneficial to the project.

According to the OECD, 30.6% of national employment is directly or indirectly linked to the ICT sector. The establishment of new LU-CIX customers in Luxembourg should cause this rate to increase further, thus actively reinforcing the diversification of the national economy.

Luxembourg’s international connectivity rose from 58 Gbps in 2006 to more than 3.8 Tbps in 2009. “LU-CIX is an excellent initiative”, Minister Biltgen explains. “It is the missing link that will contribute actively to the transformation of Luxembourg into a true Internet exchange, thereby putting our country irrevocably on the map of European information highways”.

Luxembourg among the most generous nations in providing development aid

According to the 2008 annual report of the Luxembourg State Development Aid, the Grand Duchy achieved an excellent second place worldwide in providing development aid. In 2008, Luxembourg provided EUR 287.7 million in aid, equivalent to 0.95 % of gross national income – a figure that is only surpassed by Sweden (0.98%). The report also states that Luxembourg is one of only five countries that adhere to the UN Convention of 1970, according to which governments should spend at least 0.7 % of their gross national income in the form of subsidies in development assistance. Apart from Sweden and Luxembourg, Norway, Denmark and the Netherlands are also in compliance with the UN Convention.

Belgium, the Czech Republic and Luxembourg held a Technology Day on Research, Development and Innovation (RDI)

The Technology Day on RDI held on October 19, 2009 at the premises of the Czech Foreign Ministry successfully brought together about 90 science and technology experts from the above-mentioned countries. The seminar fulfilled its objectives to introduce RDI landscapes and to look more deeply into current developments in three concrete fields identified as common priorities – Advanced Materials, ICT and Health Sciences. The exchange of information and networking was aimed at finding synergies between the science centres of the 3 countries.

The Grand Duchy of Luxembourg was represented by Luxinnovation, the University of Luxembourg and three public research centres – PRC Santé, PRC Henri Tudor and PRC Gabriel Lippmann, whereas Belgium was represented by the Katholieke Universiteit Leuven. The main contributors from the Czech Republic were CzechInvest, the Ministry of Education, Youth and Sports and the Ministry of Foreign Affairs as well as a number of research centres and private enterprises.

The seminar materials are available on the homepage of the Luxembourg embassy in Prague: www.prague.mae.lu/fr.

Luxembourg stages two cultural events in Prague this winter

In the framework of the annual German language Theatre Festival, the *Théâtre National du Luxembourg* has performed Nobel Prize winner Eugene O’Neill’s famous play “Ein Mond für die Beladenen” (“A moon for the misbegotten”) on Wednesday November 4, at 7pm at the sold out Divadlo Komédie.

On December 14, the 2nd concert of the series dedicated to John of Luxembourg will bring together Jaroslav Svěcený (Czech Republic / violin) and Francesco Tristano Schlimé (Luxembourg / piano). During the musical program, Jaroslav Svěcený will present a unique collection of master violins from four different centuries. The concert will take place at 7pm in the Majakovský hall, National House of Vinohrady. Tickets can be obtained via TICKETPRO, Tel: 296 333 333, www.ticketpro.cz