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(Information)

COUNCIL

COUNCIL OPINION

of 31 January 2000

on the updated stability programme of the Netherlands, 1999 to 2002

(2000/C 60/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

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

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 31 January 2000 the Council examined the 1999 update of the stability programme of the Netherlands which covers the period 1999 to 2002. The Council notes with satisfaction that the Dutch general Government deficit for 1998 and that estimated for 1999 are lower than those projected in the initial 1998 stability programme; in fact the budgetary outcome for 1999 is estimated to be in small surplus instead of a planned deficit of 1,3 % of GDP. The general Government debt ratio was also lower than projected in both 1998 and 1999. Economic growth in 1999 also exceeded the projection of the initial programme. The Council considers that the updated programme is consistent with the Broad Economic Policy Guidelines.

The 1999 update maintains the approach of the initial 1998 stability programme identifying three macroeconomic scenarios as a basis for the fiscal projections to 2002; the update is based on actual forecasts for the year 2000 and uses the cautious scenario as the basic framework of assumptions for 2001 and 2002. Under this scenario annual growth would be 2,0 % in 2001/2002 and the general Government deficit would reach 1,1 % of GDP in 2002. The 1999 update also takes into account the fiscal reform to be implemented in 2001 the budgetary cost of which is estimated at about 0,6 % of GDP.

As in tis opinion on the initial programme ⁽²⁾ the Council acknowledges that the adoption of the cautious macroeconomic

scenario as basis for the fiscal strategy of the Government was made on grounds of prudence; the Council notes, however, that recent economic developments render unlikely the average GDP growth rates underlying the budgetary projections of the cautious scenario. Moreover, recent economic forecasts of GDP growth for the Netherlands, including the Commission Autumn 1999 forecasts, point to real GDP growth rates for 2001 substantially higher than that assumed in the cautious scenario.

The Council considers that the Dutch method of using cautious growth assumptions and expenditure targeting and control has been instrumental in achieving the good results registered until now. However, this method also tends to make it more difficult to assess whether the medium-term outcome of the deficit is compatible with the requirements of the Stability and Growth Pact. Based on the information now available, the Council considers that the middle and favourable scenarios provide a range of more plausible macroeconomic assumptions and therefore a more relevant framework in assessing the public finance projections of the updated stability programme than the cautious scenario. The underlying budgetary position of the general government in 2002 would broadly provide adequate safety margin to prevent the deficit from breaching the 3 % of GDP threshold in normal circumstances, thus fulfilling the Stability and Growth Pact requirements.

The Council notes that tax reductions in recent years have contributed to wage moderation and improvement in employment; in this context the Council welcomes the tax reform planned to be implemented in 2001 which aims at reducing the tax burden on earned income. Taking into account the Government surplus already achieved in 1999, current strong economic growth and possible inflationary pressures, the Council recommends to the Dutch authorities to strengthen the envisaged budgetary position in 2000 and the following years, unless a significant deceleration in activity materialises. Such strengthening of the budgetary position would be fully consistent with the recommendations of the Broad Economic Policy Guidelines. The Council welcomes the intention of the Dutch Government to submit future updates of its stability programme shortly after the presentation of its annual budget memorandum which will reflect the most recent forecasts for the economy.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1.

⁽²⁾ OJ C 3, 6.1.1999, p. 2.