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(Information)

COUNCIL

COUNCIL OPINION

of 15 July 2003

on the updated Stability Programme of the Netherlands, 2001 to 2007

(2003/C 173/01)

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 15 July 2003 the Council examined the revised updated stability programme of the Netherlands, which covers the period 2001 to 2007. The revised update complies with the code of conduct on the format and content of stability programmes and broadly complies with the 2003 Broad Economic Policy Guidelines.

In 2002 real GDP growth decelerated sharply to 0,2 %, from 1,3 % in 2001, well below the forecast included in the 2001 stability programme. Government finances deteriorated markedly in 2002, mainly in response to the economic slowdown. In 2002 the general government balance showed a deficit of 1,2 % of GDP, compared to a slight surplus of 0,1 % of GDP in 2001. HICP inflation decelerated to 3,9 % on average in 2002, from 5,1 % in 2001, to a large extent due to trends in import prices and the fading of the impact of increases in indirect and energy taxes in 2001 in the wake of the tax reform.

The Council notes that since the presentation of the initial 2002 updated stability programme in December 2002, the macroeconomic projections have been significantly revised downwards, with a negative impact on budgetary conditions. The Council notes that while the gradual but relatively muted economic recovery projected in the programme appears plausible, risks are clearly skewed to the downside and that the expected recovery is contingent on a pick-up in global demand and the successful restoration of the competitiveness of the Dutch market sector. The latter requires appropriate wage developments and an increase in the rate of productivity growth.

The Council welcomes the main elements of the budgetary framework put in place by the new government, which *inter alia* encompass the use of separate expenditure ceilings defined in real terms for the three subsectors of government defined, the rule that extra revenues should be exclusively used to reduce the deficit (or the debt should the deficit disappear), and the requirement that a development of the general government deficit that would imply a violation of the Stability and Growth Pact has to be countered by additional measures.

The Council notes that in the central projection of the update the government balance is expected to deteriorate initially from a deficit equal to 1,2 % of GDP in 2002 to a 1,7 % deficit in 2004. A subsequent improvement is expected subsequently to reach a deficit of 0,5 % of GDP in 2007. The government debt ratio is expected to remain below the level of 60 % of GDP and to remain broadly stable, at around 52,5 % of GDP in the period 2002 to 2007.

The Council welcomes the substantial consolidation effort entailed in the 2003 budget and in the coalition agreement of the new government for the period 2004 to 2007, which in cumulative terms amounts to 1,2 % of GDP in 2003, 1,7 % of GDP in 2004 and up to close to 3 % of GDP in 2007. Against the background of a steeper economic downturn than previously expected, budgetary policies are expected to lead to an improvement in the cyclically adjusted general government balance by 1 % of GDP between 2002 and 2005. A position close to balance in cyclically adjusted terms would be reached in 2005 and maintained in the two subsequent years. The Council considers that with the full implementation of the consolidation measures announced by the new government and given normal macroeconomic fluctuations, a safety margin is provided not to breach the 3 % of GDP deficit threshold.

([1]) OJ L 209, 2.8.1997.

As far as the projected changes in the cyclically adjusted general government balance are concerned, the Council regrets that in 2003 and 2004 the path of adjustment falls short of the requirement to reduce the cyclically adjusted deficit by at least half a percentage point in each year, albeit not by a wide margin. The Council recommends the Dutch authorities to implement as planned the announced measures, which amount to 0,5 % of GDP in 2004, or more if needed to prevent a significant deterioration in the deficit, and to ensure that the adjustment in the cyclically adjusted general government balance is in line with the second specific recommendation to the euro area (GL 25) in the 2003 BEPGs.

Given the downside risks attached to the growth projections, the Council notes that additional measures might be needed to ensure that a budgetary position close to balance or in surplus would be maintained in the medium term. Against this background, the Council welcomes the readiness of the Dutch authorities to take additional measures to ensure compliance, should downside risks materialise.

The Council considers that on the basis of current policies, the Netherlands appear to be in a relatively good position to meet the budgetary costs associated with ageing. The debt to GDP ratio will continue to decline in coming years. However, a slight reverse trend of the debt to GDP ratio in the long run cannot be excluded. To avoid the risk of imbalances in the long run, it would be necessary to fully implement the 'Global Agreement', in particular as regards the reforms in the social insurance sector that aim at increasing participation rates and the effective retirement age. The Council considers that achieving in the longer-term a surplus budgetary position would contribute to ensuring the sustainability of government finances in the Netherlands.

Information concerning the extension of the International Agreement on Olive Oil and Table Olives, 1986

(2003/C 173/02)

At its eighty-eighth session (Madrid, 23-25 June 2003), the International Olive Oil Council decided, under the provisions of the International Agreement on Olive Oil and Table Olives (1986) [1], as amended by the 1993 Protocol extending the International Agreement on Olive Oil and Table Olives [2], to extend the Agreement for eighteen months until 31 December 2004.

(1) OJ L 214, 4.8.1987, p. 1.
(2) OJ L 298, 3.12.1993, p. 37.