COUNCIL OPINION

of 18 January 2005

on the updated Stability Programme of the Netherlands, 2004-2007

(2005/C 79/06)

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 18 January 2005 the Council examined the updated stability programme of the Netherlands, which covers the period 2004 to 2007. The programme complies with the data requirements of the revised 'code of conduct on the content and format of stability and convergence programmes'.

The macroeconomic scenario underlying the programme envisages that real GDP growth will pick up from 1¼ % in 2004 to 1½ % in 2005 and 2½ % on average over the rest of the programme period. This scenario is broadly plausible although growth is assumed above potential growth in the last two years of the programme. The programme's projections for inflation appear realistic.

On 2 June 2004, the Council decided that an excessive deficit existed in the Netherlands and recommended that this be corrected by 2005. In line with this recommendation, the primary aim of the budgetary strategy of the programme is to bring the general government deficit below the Treaty reference value of 3 % of GDP by 2005. To this end, the programme encompasses a frontloaded consolidation effort, concentrated in 2004 and 2005. The budgetary strategy also includes the use of real expenditure ceilings to control expenditure growth and the longer-term objective of sustainable public finances. At the same time, significant public investments will continue, resulting in an average public investment ratio over the programme period of slightly above 3 % of GDP, against an EU average of 2,4 % of GDP in 2004. Compared with the previous update, the current update presents a less favourable profile in the budget deficit against the background of less favourable macro-economic developments.

The risks to the budgetary projections in the programme appear broadly balanced. In particular, negative risks stemming from the macroeconomic scenario and the budgetary cost of the social agreement between the government and social partners reached on 5 November 2004 are broadly offset by positive risks of the impact of higher oil prices on revenue from the sale of natural gas and the cautious nature of the assumptions on the tax intensity of economic activity in the upturn. In view of this risk assessment, the budgetary stance in the programme seems sufficient to reduce the deficit to below 3 % of GDP by 2005 but does not seem to provide a sufficient safety margin against breaching this threshold as a result of normal macroeconomic fluctuations in the following years. It is also insufficient to ensure that the Stability and Growth Pact's medium-term objective of a budgetary position of close to balance is achieved within the programme period.

The debt ratio is estimated to have reached 56,3 % of GDP in 2004, below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to increase by two percentage points over the programme period.

([1]) OJ L 209, 2.8.1997, p. 1.

The budgetary strategy outlined in the programme puts the Netherlands in a relatively favourable position with regard to the long-term sustainability of public finances, despite important projected budgetary costs of an ageing population. Given the projected increase in the old-age dependency ratio, and in the absence of further fiscal consolidation leading to a budgetary position close to balance or in surplus in the medium term, further reforms that would modify the trends in age-related expenditures and raising further participation rates would reduce sustainability risks over the longer term.

The economic policies outlined in the programme are partly consistent with the country-specific broad economic policy guidelines in the area of public finances. The budgetary framework with expenditure ceilings is adhered to, and budgetary adjustment to correct the excessive deficit is well under way. However, the expected reduction in the headline deficit in 2006 and especially 2007 is quite slow, while the cyclically-adjusted balance would not show progress towards the medium-term objective of a budgetary position of close-to-balance after 2005.

In view of the above assessment, the Netherlands is recommended to continue to ensure that the deficit is brought below 3 % of GDP by 2005, and, in view of the risk of pro-cyclicality and the challenges of ageing population, to take the necessary measures to achieve a budgetary position close to balance thereafter.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007
Real GDP (% change)	**SP Nov. 2004**	**1,25**	**1,5**	**2,5**	**2,5**
	COM autumn 2004 00	1,4	1,7	2,4	n.a.
	SP Oct. 2003	*1*	*2,5*	*2,5*	*2,5*
HICP inflation (%)	**SP Nov. 2004**	**1,25**	**1,25**	**1,5**	**1,5**
	COM autumn 2004	1,2	1,3	1,4	n.a.
	SP Oct. 2003	*1,5*	*1,5*	*1,5*	*1,5*
General government balance (% of GDP)	**SP Nov. 2004**	**– 3,0**	**– 2,6**	**– 2,1**	**– 1,9**
	COM autumn 2004	– 2,9	– 2,4	– 2,1	n.a.
	SP Oct. 2003	*– 2,3*	*– 1,6*	*– 0,9*	*– 0,6*
Primary balance (% of GDP)	**SP Nov. 2004**	**– 0,1**	**0,3**	**0,7**	**0,8**
	COM autumn 2004	0,0	0,5	0,9	n.a.
	SP Oct. 2003	*0,6*	*1,2*	*1,8*	*2,1*
Cyclically-adjusted balance (% of GDP)	**SP Nov. 2004** (1)	**– 1,6**	**– 1,2**	**– 1,2**	**– 1,3**
	COM autumn 2004	– 1,4	– 1,0	– 1,0	n.a.
	SP Oct. 2003 (2)	*– 0,7*	*– 0,3*	*– 0,2*	*– 0,2*
Government gross debt (% of GDP)	**SP Nov. 2004**	**56,3**	**58,1**	**58,6**	**58,3**
	COM	55,7	58	58,4	n.a.
	SP Oct. 2003	*54,5*	*53,7*	*53,0*	*52,2*

(1) Commission services' calculations on the basis of the information in the programme.
(2) Commission services' calculations applying the commonly agreed methodology to the information in the programme.

Sources:

Stability programmes (SP); Commission services' economic forecasts (COM); Commission services' calculations. Forecast growth rates in the update have been rounded to the nearest quarter of a percentage point.