COUNCIL OPINION

of 12 February 2008

on the updated stability programme of the Netherlands, 2007-2010

(2008/C 49/03)

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:

(1) On 12 February 2008, the Council examined the updated stability programme of the Netherlands, which covers the period 2007 to 2010.

(2) Since 2006, Dutch GDP growth again significantly outpaces potential growth. The current upturn is generally assessed to be a regular cyclical upturn and is not widely mistaken for higher potential growth, as was the case during the rather long boom period at the end of the 1990s. Furthermore, it is more broadly based on both domestic and external sources of growth. However, given the good starting position, the tightness of the labour market may exert upward pressures on wages and prices rather early.

(3) The macroeconomic scenario underlying the programme envisages that real GDP growth will slow down from 2,75 % in 2007 to 2,5 % in 2008 and 1,75 % over the rest of the programme period. Assessed against currently available information [2], this scenario appears to be based on plausible growth assumptions until 2008 and cautious growth assumptions thereafter. Given that there are already signs of overheating in the Dutch labour market, which is expected to put upward pressure on wages, the programme's projections for inflation of 2 % from 2009 appear to be on the low side.

(4) For 2007, the general government deficit is estimated at 0,4 % of GDP in the Commission services' autumn 2007 forecast and in the programme (although the latter also mentions the latest official estimate of 0,2 % of GDP and the outturn could even be better according to the most recent information). The previous update of the stability programme had targeted a surplus of 0,2 % of GDP. The main factors contributing to this deterioration are expenditure overruns (especially in health care) and lower gas revenues, while tax revenues have turned out better than targeted. Although budgetary policy continued to respect its medium-term objective (MTO) in 2007, it was not in line with the invitation in the Council opinion of 27 February 2007 on the previous update of the stability programme [3], which invited the Netherlands to maintain a strong structural position in 2007 (and beyond), thereby avoiding pro-cyclical fiscal policies in good times. The Council notes that it was also not consistent with the April 2007 Eurogroup orientations for budgetary policies as concerns 2007, since expenditure overruns were thus not avoided and unexpected extra revenues were only partially used to reduce government deficit and debt.

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[1] OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm

[2] The assessment takes notably into account the Commission services' autumn forecast and the Commission assessment of the October 2007 implementation report of the national reform programme.

[3] OJ C 70, 27.3.2007, p. 21.

(5) The main goal of the programme's budgetary strategy is to attain a structural surplus, that is, a cyclically-adjusted surplus net of one-off and other temporary measures, of 1 % of GDP at the end of the planned government term, in 2011. Hence, throughout the programme period, the Netherlands plans to fully respect its medium-term objective (MTO) for the budgetary position, which is a structural deficit ranging from 0,5 to 1 % of GDP. After the significant deterioration in 2007, the programme projects a return to small, broadly stable headline surpluses. The primary balance follows a similar path, stabilising at 2,75 % of GDP in 2008-2010. The previous update of the stability programme assumed a growth slowdown in 2008 rather than in 2009 and targeted a broadly balanced general government budget until 2008 and a surplus of almost 1 % of GDP in 2009. In the current update, the headline adjustment over the programme period is fully revenue-based and front-loaded in 2008. It is mainly driven by increases in gas revenues, a discretionary increase in social contributions and favourable economic growth perspectives. Government expenditures are planned to be governed by expenditure ceilings in real terms, which have been defined for the whole government term in the draft budget for 2008.

(6) The risks to the budgetary projections in the programme appear broadly balanced until 2008 whilst outcomes could be better than projected from 2009 onwards, as economic growth may be stronger than foreseen in the programme. On the other hand, details regarding the planned measures still need to be fully specified. If economic growth turns out better than foreseen in the programme, this should be reflected in a better budgetary outcome from 2009 onwards in order to prevent a pro-cyclical stance of fiscal policy.

(7) In view of this risk assessment, the budgetary stance in the programme seems sufficient to maintain the MTO by a sizeable margin throughout the programme period, as envisaged in the programme. The fiscal policy stance implied by the programme is in line with the Stability and Growth Pact throughout the period. The Council also notes that the 2008 budget is consistent with the April 2007 Eurogroup orientations for budgetary policies.

(8) The Netherlands appears to be at medium risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing is higher than the EU average, influenced notably by a relatively high increase in pension expenditure as a share of GDP over the coming decades. Yet, the projected future rise of tax revenues as a share of GDP, due to the deferred taxation of private pension, would partly compensate the increase in public expenditure over the long term. The budgetary position in 2007 as estimated in the programme, which is worse than the starting position of the previous programme, contributes to offsetting the projected long-term budgetary impact of an ageing population but is not sufficient to cover the substantial increase in age-related expenditure, notably in view of the deterioration of the structural primary balance in 2007 compared to 2006. Ensuring higher primary surpluses over the medium term, as already foreseen in the programme, and/or implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing risks to the sustainability of public finances.

(9) The stability programme seems to be well consistent with the October 2007 implementation report of the national reform programme. In particular, although the programme does not provide a qualitative assessment of the overall impact of the national reform programme, both documents discuss relevant subsets of the measures embodied in the government's 'six-pillar strategy' that overarches general government policies in the current government's term. Focusing on measures with a direct budgetary impact, both documents mention the phasing-out of the transferability of the general tax credit over a period of 15 years starting in 2009. The stability programme in addition refers to plans to reduce unemployment contributions by employees and employers in 2009, which will be financed by an increase in the VAT rate in the same year.

(10) The budgetary strategy in the programme is broadly consistent with the broad economic policy guidelines included in the integrated guidelines for euro area Member States in the area of budgetary policies issued in the context of the Lisbon strategy.

(11) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most of the optional data.

The overall conclusion is that the programme aims at achieving and maintaining a broadly stable surplus, thereby ensuring a sound budgetary position throughout the period. While fiscal policy was pro-cyclical in good economic times in 2007, the budgetary stance in the programme from 2008 onwards is in line with the Pact. The risks to the budgetary targets seem broadly balanced in 2008. From 2009 onwards, if economic growth turns out better than the cautious economic scenario envisaged in the programme, this should be reflected in a better budgetary outcome than planned. As regards the long-term sustainability of public finances, the Netherlands appears to be at medium risk.

In view of the above assessment and in the light of the projected increase in age-related expenditure and the recent deterioration of the structural balance, the Netherlands is invited to improve the long-term sustainability of public finances by securing the budgetary consolidation as planned in the programme.

Comparison of key macroeconomic and budgetary projections

		2006	2007	2008	2009	2010
Real GDP (% change)	**SP Nov 2007**	**3,0**	**2,75**	**2,5**	**1,75**	**1,75**
	COM Nov 2007	3,0	2,7	2,6	2,5	n.a.
	SP Nov 2006	*3,25*	*3*	*1,75*	*1,75*	*n.a.*
HICP inflation (%)	**SP Nov 2007**	**1,7**	**1,5**	**2,25**	**2**	**2**
	COM Nov 2007	1,7	1,6	2,3	2,7	n.a.
	SP Nov 2006	*1,5*	*1,75*	*1,75*	*1,75*	*n.a.*
Output gap ([1]) (% of potential GDP)	**SP Nov 2007**	**– 0,6**	**0,0**	**0,4**	**0,1**	**– 0,4**
	COM Nov 2007 ([2])	– 1,0	– 0,4	0,0	0,3	n.a.
	SP Nov 2006	*– 0,5*	*0,6*	*0,6*	*0,3*	*n.a.*
Net lending/borrowing *vis-à-vis* the rest of the world (% of GDP)	**SP Nov 2007**	**7,7**	**6,6**	**6,5**	**7,2**	**7,5**
	COM Nov 2007	7,3	6,6	7,2	7,9	n.a.
	SP Nov 2006	*6,9*	*6,7*	*7,1*	*7,5*	*n.a.*
General government balance (% of GDP)	**SP Nov 2007**	**0,6**	**– 0,4**	**0,5**	**0,6**	**0,7**
	COM Nov 2007	0,6	– 0,4	0,5	1,3	n.a.
	SP Nov 2006	*0,1*	*0,2*	*0,3*	*0,9*	*n.a.*
Primary balance (% of GDP)	**SP Nov 2007**	**2,8**	**1,8**	**2,7**	**2,7**	**2,7**
	COM Nov 2007	2,8	1,8	2,7	3,3	n.a.
	SP Nov 2006	*2,4*	*2,4*	*2,4*	*2,9*	*n.a.*
Cyclically-adjusted balance ([1]) (% of GDP)	**SP Nov 2007**	**1,0**	**– 0,4**	**0,3**	**0,5**	**0,9**
	COM Nov 2007	1,1	– 0,2	0,5	1,1	n.a.
	SP Nov 2006	*0,4*	*– 0,1*	*0,0*	*0,7*	*n.a.*

		2006	2007	2008	2009	2010
Structural balance (3) (% of GDP)	**SP Nov 2007**	**1,0**	**– 0,4**	**0,3**	**0,2**	**0,9**
	COM Nov 2007	1,1	– 0,2	0,5	0,7	n.a.
	SP Nov 2006	*0,4*	*– 0,1*	*0,0*	*0,4*	*n.a.*
Government gross debt (% of GDP)	**SP Nov 2007**	**47,9**	**46,8**	**45**	**43**	**41,2**
	COM Nov 2007	47,9	46,8	44,8	41,7	n.a.
	SP Nov 2006	*50,2*	*47,9*	*46,3*	*44,2*	*n.a.*

Notes:

(1) Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.

(2) Based on estimated potential growth of 2,1 %, 2,2 %, 2,2 % and 2,2 % respectively in the period 2006-2009.

(3) Cyclically-adjusted balance excluding one-off and other temporary measures. According to the most recent programme and the Commission services' autumn forecast, one-off and other temporary measures are 0,3 % of GDP in 2009; deficit-reducing.

Sources:

Stability programme (SP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations.