The debt ratio, which in 2003 fell more than assumed in the programme, is projected to decline over the programme period, from 106 % of GDP in 2003 to 98,6 % in 2007. This evolution is less ambitious than was foreseen in the previous update. The evolution of the debt ratio may be less favourable than projected, given the risks to the deficit outcomes mentioned above, and the level of expected proceeds from the privatisation programme. Concern is expressed about the pace of debt reduction, so every opportunity should be taken by the Italian authorities to accelerate its pace.

On the basis of current policies, risks of budgetary imbalances emerging in the future due to an ageing population cannot be ruled out. Securing an adequate primary surplus is essential if the debt reduction is to make a noticeable contribution towards meeting the costs of ageing. This should be complemented by measures to raise employment rates, especially among older workers and women, and control the evolution of age-related spending. The plans to reform the pension system unveiled in late 2003, if implemented, would make a substantial contribution to achieve these objectives. A further postponement in the implementation of the draft legislation on pension reform is not consistent with the pursuit of a sustainability-oriented fiscal strategy.

The economic policies as reflected in the updated programme are partly consistent with the recommendations of the Broad Economic Policy Guidelines, specifically those with budgetary implications, including the request to improve the cyclically-adjusted budget position by at least 0,5 % of GDP each year as calculated according to the commonly agreed methodology. Risks persist on the planned replacement of one-off measures, the implementation of structural expenditure cuts and the pace of reduction in the debt ratio. Finally, the timely implementation of the government draft legislation on pension reform is essential in order to dampen the projected increase in the ratio of pension expenditure to GDP over the next twenty years.

COUNCIL OPINION

of 10 February 2004

on the updated stability programme of the Netherlands, 2001-2007

(2004/C 43/02)

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 co-ordination 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 10 February 2004 the Council examined the 2003 update of the stability programme of the Netherlands, which covers the period 2001 to 2007. The updated programme complies with the data requirements of the revised 'code of conduct' on the content and format of stability and convergence programmes.

The budgetary strategy underlying the update is based on keeping real expenditure below predetermined ceilings over the period 2004-2007, while at the same time pursuing significant savings measures. Measures are frontloaded in 2004 and 2005 and for a large part consist of expenditure cuts. In the strategy, expenditure windfalls can no longer be used for automatic expenditure increases. Automatic stabilisers on the revenue side of the budget should be allowed to work freely as much as possible, except that an increase of the deficit that would imply a violation of the Stability and Growth Pact has to be countered by additional savings measures.

The update projects real GDP growth at 0 % in 2003, from 0,2 % in 2002. In 2004 growth is estimated to pick up to 1 %, whereas it would average 2,5 % in 2005-2007. Employment growth is expected to be – 0,5 % in 2004 and to increase to slightly above 1 % on average in 2005-2007. HICP inflation is forecast to remain stable at 1,5 % in 2004-2007. Currently available information indicates that the macroeconomic developments in 2003 are less favourable than expected at the time of the submission of the programme, and much in line with the Commission Autumn 2003 forecast. Some downside risks were noted to the Dutch projections for 2004.

(1) OJ L 209, 2.8.1997.

The programme encompasses a substantial package of net savings, covering the period 2004-2007. However, in view of the sharp deceleration in economic activity the actual deficit is expected to rise in spite of the size of the measures taken. The programme targets a general government deficit of 2,3 % of GDP in 2004, the same as the expected deficit in 2003 despite substantial measures aimed at limiting the deficit increase, in line with the Council recommendations on the previous stability programme update. Total consolidation measures in the period 2003-2007 add up to around 3 % of GDP by 2007. Owing to this substantial package the nominal deficit is expected to fall to 1,6, 0,9 and 0,6 % of GDP in 2005, 2006 and 2007 respectively. In cyclically-adjusted terms, based on Commission calculations according to the commonly agreed methodology, the update incorporates an improvement of around 0,8 percentage points in 2003 and targets an improvement of 0,6 percentage points in 2004 resulting in a deficit of 0,7 % of GDP in 2004. The cyclically adjusted deficit is expected to fall further to 0,5 % of GDP or slightly below in each of the years 2005 to 2007.

The update expects the debt ratio to rise slightly to 54,5 % of GDP in 2004, before falling to around 52 % by 2007.

However, on the basis of currently available information, the projections on the actual budget balance appear less favourable than when the programme was submitted judging from the Commission Autumn forecast. For 2003, this is confirmed by the release of a preliminary estimate of the deficit for 2003 of 2,7 % of GDP by the Ministry of Finance on 14 January 2004. Because of the worse starting point, a higher nominal deficit than forecast in the programme also seems likely in 2004 and possibly in subsequent years. Moreover, under more adverse economic circumstances, the 3 % of GDP threshold may be breached. In this respect, it is noted, however, that budget rules as laid down in the Coalition Agreement are such that measures will be taken should the actual deficit come close to 3 % of GDP. Notwithstanding the downside risks to the nominal budgetary projections, the Commission Autumn forecast suggests that the planned improvement in the cyclically adjusted deficit, reaching a position close to balance from 2005 onwards, may still be achieved. Thus, the eventual achievement of medium-term position close to balance should be sufficiently established by the programme. Finally, it is noted that the Dutch programme maintains a high level of public investment of about 3,3 % of GDP throughout the programme period.

For the period up to 2005, the update expects a somewhat lower debt ratio than the Commission Autumn forecast. Reaching a position of close to balance also reflects the Dutch government's firm commitment to achieve long term sustainability of public finances through reducing the debt ratio. According to the calculations of the Commission some risks of budgetary imbalances emerging in the future cannot be ruled out once the full impact of ageing takes place. The commitment of the Dutch government to secure an adequate improvement in the primary surplus before ageing reaches its peak, together with the necessary measures to stem the long-term increase in expenditure, is essential to ensure that the public finances are kept on a sustainable footing.

The economic policies as reflected in the updated programme are broadly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. This regards in particular the implementation of budgetary consolidation aimed at achieving and maintaining a budgetary position close to balance in the medium term. To this end the setting of expenditure ceilings in real terms has been crucial.