28 november 2007

Stability Programme of the Netherlands

November 2007 Update

ministry of Finance

Contents

Chapter 1 Overall policy framework and objectives

On 22 February a new Cabinet came into office in the Netherlands. It marked out economic growth, sustainability and solidarity as the key concepts in its Coalition Agreement for the period up to 2011 and identified six priority areas for public policy: (1) an active and constructive role for the Netherlands in Europe and in the world, (2) progress towards an innovative, competitive and enterprising economy, (3) a sustainable living environment, (4) participation and social cohesion, (5) safety, stability, and respect, (6) a more service-oriented and more efficient government. Measures taken within these priority areas, both on the expenditure and revenue side, aim to strengthen both the economic and social structure of the Netherlands and to strengthen the soundness of public finances. The budgetary framework sets a strict budgetary constraint on new policy measures through its aim for a 1% structural surplus target for 2011.

At the moment, the Dutch economy is still in a phase of healthy economic growth. GDP-growth in 2008 is expected to drop slightly to 2½ per cent. If this is realized, 2008 would be the third consecutive year of above-potential output growth. At the same time, the general government deficit and debt ratios are improving substantially. The EMU balance is expected to recover from a deficit of 0.4% GDP in 2007 to a surplus of 1% in 2011, the last year of this Cabinet's term. For 2008, the draft budget forecasts a surplus of 0.5% of GDP. The debt ratio is expected to fall from 46.8% of GDP in 2007 to 39.2% of GDP in 2011. Moreover, the structural budget deficit is expected to steer clearly away from the Dutch Medium Term Objective (a structural deficit of 0.5% to 1.0% of GDP) in the 2008-2011 period.[1]

This Cabinet is adhering to the budgetary institutions that have served previous governments well, but it has also improved on some elements. Notably, trend-based fiscal policy making, with its medium term focus, is still key to budgetary policy making. Real expenditure ceilings have been set for the entire Cabinet term.[2] Revenues are allowed to fluctuate fully to allow for automatic stabilization of the economy while limits have been set on the discretionary tax cuts and increases over the Cabinet's term in office. All this has not changed.

Some elements of our budgetary rules have been improved. For instance, the signal value, the value at which additional policy action is taken to avoid the occurrence of excessive deficits is now a (nominal) deficit of 2% of GDP, whereas it was 2.5% under the previous government. Moreover, additional policy action will be taken if the current MTO is not respected.

Furthermore, interest expenditure has been taken out of the expenditure ceilings to diminish pro-cyclicality. In addition, the Cabinet now uses realistic growth projections in our budget, instead of incorporating a safety margin with regard to growth. The political pressure for higher expenditure and/or tax cuts triggered by possible large windfalls is thus reduced.

[1] Given the uncertainty surrounding the calculations of the structural budget deficit, the Netherlands has decided not to pinpoint the MTO to a specific number, but instead to keep a target range.
[2] More details on the expenditure ceilings will be provided in Chapter 7.

The Cabinet commits to stay within its real expenditure ceilings. Given the current macro-economic outlook this is projected to result in surpluses for four consecutive years in the period up to 2011. However, depending on the macro-economic conditions prevailing, the actual budgetary outcomes (i.e. deficit and debt ratio) may differ from the projections provided in this update and the 2008 budget. Such deviations will be the result of the free working of automatic stabilizers.

All in all, by 2011 both economic and social structures and public finances should be relatively well-positioned to face the financial challenges posed by an ageing society.

This update is based on the Coalition Agreement, the 2008 budget and the Netherlands Bureau for Economic Policy Analysis' (Centraal Planbureau/CPB) short and medium-term economic outlook. The budget has been approved by Parliament. Following the approval of the Stability Programme by the Dutch Council of Ministers on 23 November 2007, it was simultaneously sent to Parliament and the European Commission. The Council opinion on the previous update of the programme was discussed in Parliament on 14 February 2007.

Chapter 2 Economic outlook

World economy and technical assumptions

The short-term economic outlook for the world and Europe are favourable, though significant risks remain. One major risk is that a deterioration in current financial market developments could impact on the real economy.

The external assumptions underlying the Dutch economic scenario do not differ significantly from those of the European Commission. The Dutch economic forecast and the Commission's Autumn Forecast are compared at the end of this chapter. Chapter 4 presents an analysis of some alternative scenarios showing the sensitivity of the economic scenario to major assumptions (subprime crisis, further oil price rises, fall of the US dollar and an increase in the long-term interest rate).

The table below shows the external assumptions for the short and medium-term economic outlook. The period up to 2008 is the short term scenario based on the independent forecast by the CPB Netherlands Bureau for Economic Policy Analysis. The assumptions and the forecasts for 2009 and 2010 are also based on CPB work[3] but on reports pertaining to the medium term outlook[4].

Table 2.1 External assumptions

	2006	2007	2008	2009	2010
Short-term interest rate (annual average)	3.1	4	4 ½	4 ½	4 ½
USD/€ exchange rate (annual average)	1.26	1.34	1.35	1.38	1.42
Nominal effective exchange rate	0.6	3	¼	1	1
World GDP growth	5.3	5	5	4 ¾	4 ¾
EU GDP growth	3.3	3	2 ¾	2 ½	2 ½
World GDP growth excluding EU	6.2	5 ¾	6	5 ¼	5 ¼
Growth of relevant foreign markets*	7.7	6 ¼	6 ½	6 ¼	6 ¼
World import volumes, excluding EU	7.6	6 ¾	6 ¾	6 ½	6 ½
Oil prices (Brent, USD per barrel)	65.2	69	75	65	65

Source: CPB document 151, figures for world GDP growth, EU GDP growth, and world GDP growth excluding EU are consistent with this document but not provided there; Oil prices are the ministry of Finance's own estimates which are more cautious than those of the CPB.
* Taken to be equivalent to the Dutch "*relevant wereldhandelsvolume*" (volume of relevant world trade)

[3] CPB, "Macro Economische Verkenning 2008", September 2007.
[4] CPB, "Actualisatie Economische Verkenning 2008-2011", September 2007

Cyclical developments and current prospects

Supported by all major demand categories, economic growth is expected to reach 2¾% in 2007 and 2½% in 2008. Benevolent economic developments in the main trading partners and buoyant economic growth stimulate external demand, notwithstanding the appreciated euro. Both private investment and consumption will grow.

Total private investment is expected to grow by 5¼% in 2007 and 4¾% in 2008. Excluding the volatile big ticket items like air planes, rail roads, and vessels, private investment growth is particularly strong. The remaining items are most sensitive to cyclical developments. In 2007 these cyclically sensitive items are expected to rise by 9% on the back of stronger industrial production, increased producer confidence and increased profit margins. Yet the expected turnaround going into next year is rather sharp: in 2007 growth is expected to be 9% whereas the growth rate for 2008 in the current projection is no more than 2%. Big ticket items support the projection of the headline figure, resulting in the aforementioned reasonable growth figure of 4¾% in 2008.

Private consumption growth is expected to peak in the second half of 2007 but will not fall back much next year. The dip in consumer confidence is perceived to stem from the financial market turbulence. Most importantly, sub indicators of consumer confidence, that have predictive power for consumer spending, have not been affected as much. The willingness to buy large items has fallen back only slightly. Private consumption is supported by the growth in private wealth, which is mostly generated by rising house prices and growth in disposable income.

Table 2.2 Macroeconomic prospects

	ESA Code	2006 Level (bln €)	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change
Real GDP	B1*g	534.03	3.0	2 ¾	2 ½	1 ¾	1 ¾
Nominal GDP (€ bln)	B1*g	534.03	5.0	4 ¼	4 ½	3 ¾	3 ¾
Components of real GDP							
Private consumption expenditure	P.3	253.48	-0.8	2	2	1 ¼	1 ¼
Government consumption expenditure	P.3	135.40	9.4	2 ¼	½	1 ½	1 ½
Gross fixed capital formation	P.51	105.28	10.0	5 ¼	4 ¾	2	2
Changes in inventories (Δ)	P.52+ P.53	0.79	-0.1	0	0	0	0
Exports of goods and services	P.6	391.35	7.0	6 ¼	6 ½	5 ¾	5 ¾
Imports of goods and services	P.7	351.60	8.1	6 ½	6	5 ½	5 ½
Contributions to real GDP growth							
Final domestic demand			3.2	2 ¼	2	1 ¼	1 ¼
Changes in inventories (Δ)	P.52+ P.53		0	0	0	0	0
External balance of goods and services	B.11		-0.2	½	½	½	½

Medium-term scenario

The Dutch economy continues to prosper. For the third year in a row, economic growth is expected to surpass potential growth in 2008. Potential growth is estimated at 2.1%. However, in the medium-term scenario the output gap will turn slightly negative. Seen from the supply side, growth in the medium term is mostly supported by TFP growth (half of potential growth), with capital contributing 0.7%-point and labour contributing 0.3%-point.

Table 2.3 Cyclical developments

	ESA Code	2006	2007	2008	2009	2010
Real GDP growth		3.0	2 ¾	2 ½	1 ¾	1 ¾
Potential GDP growth		2	2.1	2.1	2.1	2.0
Contributions to growth:						
- Labour		0.3	0.4	0.3	0.3	0.3
- Capital		0.7	0.7	0.8	0.7	0.7
- Total factor productivity		1.1	1.0	1.0	1.0	1.0
Output gap		-0.8	-0.2	0.2	-0.1	-0.3

Sectoral balances

The price competitiveness of the Netherlands is expected to improve slightly in the coming years (i.e. 2008 onwards). This, however, is not sufficient to offset the deterioration in price competitiveness in the preceding six years. Nevertheless, the balance on goods and services is expected to remain positive by a wide margin. Both the private and public sector are expected to be net lenders in international capital flows over the next four years. In the government's case, this will mean a reduction of the debt (see chapter 3 and 6).

Table 2.4 Sectoral balances

% of GDP	ESA Code	2006	2007	2008	2009	2010
Net lending/borrowing vis-à-vis the rest of the world	B.9	7.7	6.6	6.5	7.2	7.5
Of which						
- Balance on goods and services		7.4	6.7	6.9	7.1	7.5
- Balance of primary incomes and transfers		1.6	1.3	1.0	1.1	1.2
- Capital account		-1.4	-1.4	-1.4	-1.1	-1.2
Net lending/borrowing of the private sector		7.0	7.0	6.0	6.6	6.8
Net lending/borrowing of general government		0.6	-0.4	0.5	0.6	0.7
Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Labour market

Unemployment continues its downward trend in both 2007 and 2008. In 2008, unemployment is expected to come down to 3% of the labour force. However, the decline in unemployment is so strong that labour market tensions are anticipated. Vacancies have reached a record 236,000 in September 2007, a level last seen at the top of the cycle in 2001. This makes it more imperative to activate those people still not participating or working for only a few hours a week. An important group consists of non-active persons not relying on welfare. Recently, Statistics Netherlands estimated that 453,000 persons would like to work but have not yet entered the labour market. To a large extent this group consists of women with a working partner. Since 2001, the labour force has grown by just under 5%.

Contractual wages are expected to accelerate to 4% growth in 2008. Partly off-setting the large increase in wages is the robust growth in labour productivity in the manufacturing sector of 2 ½ % in 2007 and 3 ½ % in 2008. All in all, real unit labour costs are expected to increase by ¼ % in 2007 and ½ % in 2008. The inflation rate adapts moderately to the increase in nominal wages and is expected to amount to 1½ % in 2007 and 2¼% in 2008 (HICP).

Table 2.5 Labour market developments

	ESA Code	2006	2006	2007	2008	2009	2010
		level	rate of change	rate of change	rate of change	rate of change	rate of change
Employment (x thousand persons)		8383	1.2	2 ½	1 ¼	½	½
Employment (bln hours worked)		11.2	1.8	2 ¼	1	½	½
Unemployment rate (% of labour force)		3.9	3.9	3 ¼	2 ¾	3	3
Labour productivity (persons)		63.7	1.8	¼	1 ¼	1 ¼	1 ¼
Labour productivity, hours worked		9.68	1.2	½	1 ½	1 ½	1 ½
Compensation of employees	D.1	263.1	3.8	4	5 ¼	4 ¼	4 ¼
Compensation per employee		41.2	2.3	2	4	3 ½	3 ½

Comparison with Autumn Forecasts

The budgetary and economic forecasts of the Dutch Cabinet and of the European Commission are very much in line with each other. Both forecast a moderation of economic growth in the years ahead. The Commission is somewhat more positive for the year 2009, stemming from both a higher growth of private consumption and gross fixed capital information. The table below compares the two forecasts.

Table 2.6 Comparison with Autumn Forecasts

Variable	Source	2006	2007	2008	2009	2010
Economic growth	EC	3.0	2.7	2.6	2.5	NA
	NL/CPB	3.0	2 ¾	2 ½	1 ¾	1 ¾
Private consumption	EC	-0.8	1.9	2.0	1.6	NA
	NL/CPB	-0.8	2	2	1 ¼	1 ¼
Gross fixed capital formation	EC	7.2	4.5	3.6	3.4	NA
	NL/CPB	7.9	4 ½	3 ¾	2	2
General government balance	EC	+0.6	-0.4	+0.5	+1.3	NA
	NL	+0.6	-0.4	+0.5	+0.6	+0.7

Economic implications of major structural reforms

In the recent past, major structural reforms have improved both the growth capacity of the Dutch economy and the state of public finances. The key aim of labour market policy for this Cabinet is to increase labour participation. All envisioned measures are aimed at supporting an increase in labour participation of up to 80% in 2016. The measures are specifically focused on those groups that lag behind in participation (women, older people, low-skilled workers, immigrants). Some important measures are:

- Phasing out, by 6⅔% a year, of the transferability of the general tax credit paid to partners earning little or no income. This phasing out will take place over the period 2009 – 2024 and will apply only to non-earning partners born after 1971 who do not have children aged under six years. The reduction of this transferability makes it financially more attractive for the non-earning partner to participate in the labour market. At the same time, the level of the general tax credit will be fixed in nominal terms. Starting in 2009, the above measures will boost revenues by € 0.5 billion annually (in the period up to 2011).
- Introduction of an earned income tax credit (EITC). Although there is agreement on the introduction of the EITC in 2009, the parameters still have to be determined. It is hence too early to give a precise estimate of the economic and budgetary effects of introducing an EITC. In general, EITCs reduce the natural rate of unemployment.
- Abolishing social assistance for people aged under 27 years in combination with a study/work obligation. Budgetary savings of abolishing this social assistance are expected to total roughly € 800 million over the Cabinet's term in office. However, part of the savings will be invested in the study/work obligation.
- Introduction of a tax credit for the least-earning partner that increases with income in 2009 (exact parameters still to be determined) for families with children.
- Reduction of the unemployment insurance premium paid by employees in 2008 by 0.35% and full reduction in 2009 (the premium is currently 3.85% over income of between € 15,660 and € 43,856) as well as a reduction of the unemployment insurance premiums paid by the employers. As from 2009 this will lead to an average yearly increase in expenditures by € 0.5 billion and a

decrease in revenues by € 2.0 billion. This will be mostly financed by a 1%-point increase in the VAT rate in 2009.

- Action plan 45+, whereby CWI (the employment office of the Netherlands) will assist 30,000 people aged 45 and older to get a job.
- Investments in child care. An extra € 700 million will be made available over the Cabinet term.
- Prevent discrimination, e.g. by setting up a 'national registration point' and drawing up plans for jobs for immigrants on a local/regional level.
- Wage subsidies for jobs for the long term unemployed and other low-participation groups. Costs are expected to total € 850 million over the Cabinet's term in office.

Besides these measures, additional agreements were made with social partners in the summit on participation. At the summit on participation agreements have been made between employers, labour unions and welfare institutions to help an extra 200,000 people to get a job. Social partners will, in collective agreements, make provision to help people who are less than 35% disabled to stay in the work force. Collective labour agreements will also contain clauses on flexible working times and the use of Education & Development funds ("O&O fondsen") to provide training opportunities for employees.

Another significant policy action from an economic perspective foreseen for this Cabinet's term in office is the reduction of red tape by 25%. In 2004, the CPB has calculated the effects of a reduction in administrative burden to have the results shown in table 2.7[5]. These calculations related to the previous Cabinet's ambition to reduce the administrative burden by 25% as well. The current 25% comes on top of the ambition of the previous Cabinet.

Table 2.7 Effects of lowering the administrative burden (cumulative growth in %)

	Year t+1	Year t+2	Year t+15
GDP	+0.2	+0.3	+1.4
Labour productivity business sector	+0.5	+0.7	+1.6
EMU balance	0.0	0.0	+0.3

[5] Taken from CPB notitie "Economische effecten van een verlaging van de administratieve lasten", 7 April 2004

Chapter 3 General government balance and debt

Policy strategy

In February 2007 a new Cabinet ("Balkenende-IV") started its 4-year term. In its Coalition Agreement, it outlined its policy strategy including the budgetary strategy and framework (see chapter 7). The Cabinet aims to strengthen the economic structure, by putting a stronger emphasis on labour participation, a more balanced distribution of purchasing power, sustainability, innovation and social cohesion.

The Budgetary Memorandum 2008 of September 2007 (the draft 2008 budget) further elaborated the budgetary policy and rules for the years 2008-2011. It is currently envisaged that the new investments will go hand-in-hand with yearly budgetary surpluses. The Cabinet wants to strive for a balance between (social) investments and a sound and responsible financial policy. Solid budgetary rules ensure that previously set policy priorities and goals are achieved (see chapter 7 for more information on the budgetary rules).

Medium-term objective

The Stability and Growth Pact requires Member States to set a medium-term objective (MTO). This MTO may diverge from a (structural) budgetary position of close to balance or in surplus, depending on the debt ratio (with 60% of GDP as a benchmark) and the potential growth rate. The Netherlands' debt ratio is far below 60% of GDP. Its long-term potential growth, according to EPC calculations, is just above the EU average. This implies a range for the MTO from -0.5% of GDP up to -1% of GDP as agreed by the EFC on 6 October 2005. The new Cabinet's domestic budgetary rules are based on the current MTO. This MTO is in fact explicitly acknowledged in the new Cabinet's domestic budgetary rules (see chapter 1).

The Netherlands have adopted this range as its MTO. At the same time, it is recognised in the Netherlands that this MTO, stemming from the Stability and Growth Pact, may not be sufficient to ensure the long term sustainability of public finance in light of the costs of ageing. For 2011, the Government has set a target for a structural surplus of 1% of GDP. This target is effectuated in the set budgetary framework. The actual outcome will be depended on the free working of automatic stabilizers on the revenue side.

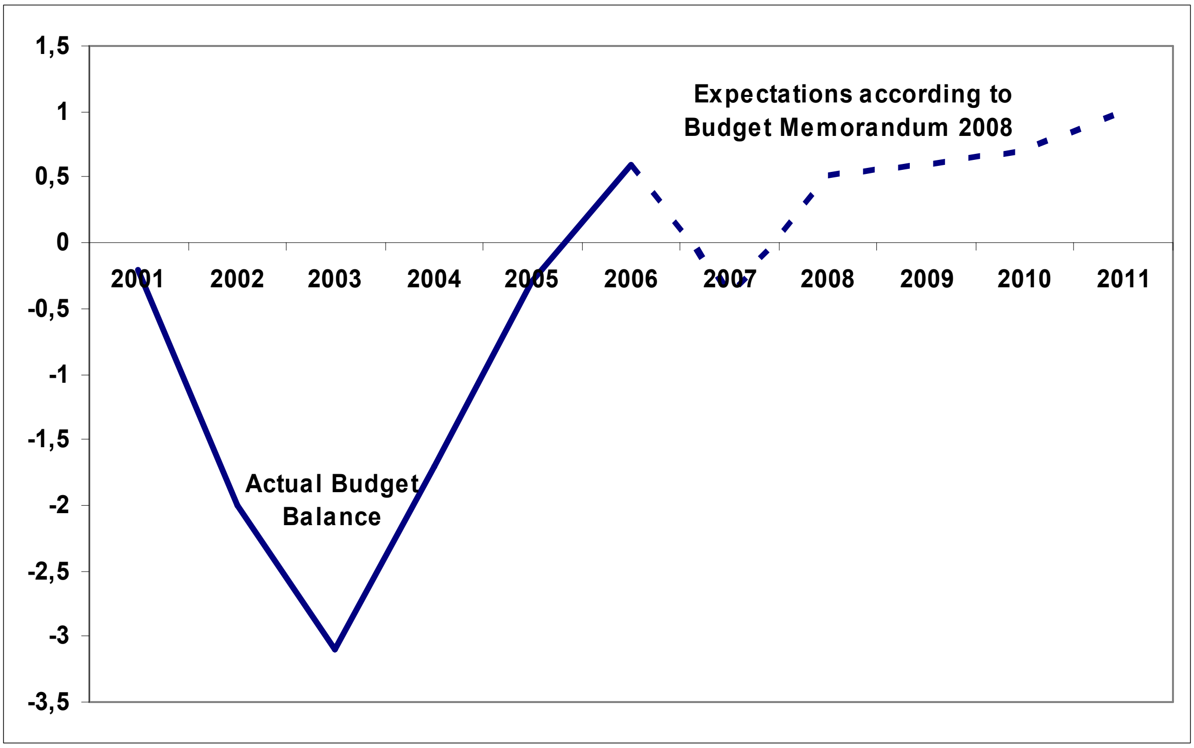
Nominal budget balance

According to the Budget Memorandum presented in September 2007 the general government deficit will be 0.4% of GDP, whereas in 2008 a surplus is expected of 0.5% of GDP. The recently published Autumn Report (Najaarsnota) even projects a deficit for 2007 of 0.2% of GDP, an improvement by 0.2% of GDP compared to the Budget Memorandum that was published in September.

So, the prospects for 2008 are good. This expectation is based on the following: (1) an increase in the government revenues, (2) higher natural gas revenues, and (3) lower expenses for the

Economic Structure Enhancement Fund[6]. Expenditures on health care, education, infrastructure, and EU contributions are higher than previously expected.

Figure 3.1 Actual EMU-balance and outlook for the coming years



Structural budget balances

In 2007 a structural deficit of -0.3% of GDP is expected. Based on the information available at the time of the Budget Memorandum, the goal of a structural surplus of 1% of GDP will be achieved in 2011, while the balance is expected to improve each year in the 2007-2011 period.

Table 3.1 Structural balances

% GDP	2007	2008	2009	2010	2011
General government balance	-0.4	0.5	0.6	0.7	1.0
- Cyclical component	0.1	-0.1	0.0	0.2	0.2
- One-off and temp measures	0.0	0.0	-0.3	0.0	0.0
Structural balance	-0.3	0.4	0.4	0.8	1.1

Debt levels and developments

In the coming years, government debt will continue its downward trend. Interest expenditure will decrease owing to the debt reduction. More specifically, in 2008, the debt level will be at 45%; in 2011, it is expected to have decreased to a level of 39%, the lowest in the last 30 years.

[6] Fonds voor Economische Structuurverwerking (FES)

Table 3.2 General government debt developments

	2006	*2007*	*2008*	*2009*	*2010*	*2011*
1. Gross debt	**47.9**	**46.8**	**45**	**43**	**41.2**	**39.2**
2. Change in gross debt ratio	**-4.4**	**-1.1**	**-1.8**	**-2**	**-1.8**	**-2**
Contributions to changes in gross debt						
3. Primary balance (minus sign = surplus)	-2.8	-1.8	-2.7	-2.7	-2.7	-2.9
4. Interest expenditure	2.2	2.2	2.2	2.1	2.0	1.9
5. Stock-flow adjustment	-3.8	-1.5	-1.3	-1.4	-1.1	-1
(Of which denominator effect)	(-2.6)	(-1.9)	(-2.1)	(-1.7)	(-1.4)	(-1.3)

Chapter 4 Sensitivity analysis and comparison with previous update

Comparison with previous update

This year's short-term outlook is comparable to last year's. While predicted at 3¼% last year, 2006 economic growth turned out to be 3.0% according to the latest figures. In line with last year, the economy is expected to be at the top of this cycle with growth falling back slightly in the coming year. Still, the current outlook for 2008 is better than last year's outlook. However, this is partly due to technical reasons. Last year, the forecast for 2008 was the first year of the medium-term scenario. In this update 2009 is the first year of the medium-term scenario. The medium-term frame has been shifted forward by one year.

Table 4.1 Divergence from previous update

	ESA Code	2006	2007	2008	2009	2010
Real GDP growth (%)						
Previous update		3¼	3	1¾	1¾	NA
Current update		3.0	2 ¾	2 ½	1¾	1¾
Difference		- ¼	- ¼	+ ½	0	NA
General government net lending (% of GDP)	EDP B.9					
Previous update		0.1	0.2	0.3	0.9	NA
Current update		0.6	-0.4	0.5	0.6	0.7
Difference		+0.5	-0.6	+0.2	-0.3	NA
General government gross debt (% of GDP)						
Previous update		50.2	47.9	46.3	44.2	NA
Current update		47.9	46.8	45.0	43.0	41.2
Difference		-2.3	-1.1	-1.3	-1.2	NA

Alternative scenarios and risks including sensitivity of budgetary projections

Adverse developments in the subprime mortgage market

Currently, one of the most discussed risks to the world economic outlook is a spread of the US sub-prime mortgage market problems. This could possibly lead to a world wide rise in risk aversion resulting in higher risk premiums, lower equity prices and a drop in world trade, coupled with falling tradable goods prices. If the effects filter through to the Dutch economy, private investment and consumption growth are expected to fall.

In this scenario, the risk-free interest rate (i.e. on AAA government bonds) does not change, so there is no direct interest effect on public finances. However, the significant decrease in GDP growth would lead to deterioration in the EMU deficit due to both falling revenue growth and a smaller denominator (than projected). Part of the decrease in revenues is explained by a fall in oil prices by 1.5% in the first and 7.5% cumulatively in the second year (owing to lower global GDP growth). The table below shows the figures for this scenario that is based on CPB research.

Table 4.1 Subprime mortgage crisis

	2008
Gross Domestic Product (GDP)	-1.0
Private consumption	-1.3
Corporate investment	-2.4
Goods exports (excluding energy)	-1.6
Employment	-0.1
Consumer price index (CPI)	-0.6
Wage rate market sector	-0.3
General government balance (level, % of GDP)	-0.5

Oil price increase

In the current projection, based on market information published in September, the oil price increases from an average of USD 69 per barrel of Brent oil in 2007 to USD 75 per barrel in 2008. Since then, the oil price has increased to above USD 90 per barrel. The table below shows the effects of an increase in the oil price by 10 USD in the last quarter of 2007, staying at that level in 2008.

Generally speaking a partial effect of oil price movements on the government finances are negligible since on average additional gas revenues cancel out opposite movements across the rest of public finances (see also MEV 2007, CPB). The effects of such a partial oil price rise on GDP, corporate investment and inflation could be considerable. However, the exact effects, to a large extent, depend on the fundamentals that lie below fluctuating oil prices. High oil prices due to high energy demand by fast growing economies are much less harmful for government finances, than a rise in oil prices stemming from supply side disruptions, since the drop in in GDP may well not occur.

Table 4.2 Effects of a USD 10 rise in the oil price

	2008
Gross Domestic Product (GDP)	-0.4
Private consumption	-0.5
Corporate investment	-1.6
Goods exports (excluding energy)	-0.6
Employment	-0.1
Consumer price index (CPI)	+0.5
Negotiated wage rate market sector	-0.1
General government balance (level, % of GDP)	0.0

Source: based on the CPB Macro Economische Verkenning 2007, with effects expected to be in symmetry with an oil price decrease.

Depreciation of the dollar

Since its high in February 2002, the US dollar has depreciated by 30% in real effective terms, while the US current account deficit has reached 6½ % of GDP. Compared to the depreciation after the Plaza Accord of 22 September 1985, the US dollar has by now fallen as much (then 32% in real effective terms with a low in April 1988[7]). However, the current account deficit reached only 3.5% of GDP in 1985, whereas the current account deficit has now risen to 6½ % of GDP in the past two years. A further depreciation of the US dollar is therefore possible. The table below shows the 'standard' effects of an appreciation of the euro vis-à-vis the dollar by 10 eurocents above the current projection.

Table 4.3 Appreciation of the euro vis-à-vis the USD by 10 eurocents above current projection

	2008
Gross Domestic Product (GDP)	-0.3
Private consumption	+0.2
Corporate investment	+0.1
Goods exports (excluding energy)	-1.1
Employment	-0.1
Consumer price index (CPI)	-0.7
Negotiated wage rate market sector	-0.3
EMU balance (level, % of GDP)	-0.2

Source: CPB Macro Economische Verkenning 2007.

Interest rate hike

Long-term interest rates have increased over the last year but backtracked in the last months. The central projection in this update puts the long-term interest rate at 4¼ % in 2007 and 4½ % in 2008. An interest rate hike is not inconceivable, given the recent volatility in interest rate risks. An interest rate hike in the real world has to be assessed against simultaneous developments. For instance, the current rise in the risk premium has a different effect on debt instruments issued by private parties than those issued by public institutions. The rise in the interest rate would currently most likely fit into a scenario as described under the above scenario "Adverse developments in the subprime mortgage market").

However, partial models can give a hint as to what the sensitivity of public finances and the economy to interest rate developments is. An interest rate hike of 1%-point in 2007 would, in such a partial analysis, lead to lower investment and a fall-off in consumption, depressing GDP growth. The effect on employment filters through in the second year after the interest rate hike (2009). Higher capital costs put upward pressure on prices, whereas the drop in demand puts has a downwards influence. The table below shows the effects of a 1%-point higher interest rate throughout 2007, assuming no change in the Dutch economy's competitiveness.

[7] Against the high point of February 1985, the real effective depreciation was 38%.

Table 4.4 Effects of higher long-term rates (+1 pp starting 2007 compared to basis scenario)

	2008	**2011**
Gross Domestic Product (GDP)	-0.2	-0.7
Private consumption	-0.5	-1.0
Corporate investment	-0.9	-3.0
Goods exports (excl. energy)	0.0	-0.1
Employment private sector	0.0	-0.5
Consumer price index (CPI)	+0.1	+1.6
Negotiated wage rate market sector	0.0	+1.7
General government balance (level, % of GDP)	-0.1	-0.7

Source: "Saffier: een 'multipurpose'-model van de Nederlandse economie voor analyses op korte en middellange termijn", CPB document 123, June 2006.

Chapter 5 Quality of public finances

Policy strategy

Economic growth, sustainability and solidarity are the key elements of this Cabinet's policy. The Cabinet is taking firm steps to realise a total of 74 intermediary and final targets identified for the coming years. These specific targets improve the accountability of government policy.

The quality of public finances is determined by a number of factors. Long-term financial sustainability should be warranted. Clear and effective budgetary rules are necessary to avoid pro-cyclical policies. In addition, the timing of expenditure and revenue measures should fit in the business cycle. These elements are covered in chapters 3, 6 and 7. Enhancing the economy's capacity for sustainable growth by shifting burdens and expenditures should fall within the limits set by financial sustainability, avoidance of pro-cyclical policies and clear and effective budgetary rules.

To reinforce sustainable growth, the new Cabinet has identified six pillars within public expenditure. In 2008, increases in expenditures amount to € 2.5 billion of which a significant amount will go to education. Spending on education increases by 1½ yearly in real terms over the Cabinet term. Increased investment in education is an example of a policy enhancing the potential for sustainable growth. In 2011, the increase in expenditures in the six pillars is foreseen to amount to € 6.9 billion. At the same time, cutbacks are expected to total € 7.1 billion. Taken together, total expenditures will rise by € 20.8 billion in real terms over the Cabinet's term in office.

The government is strengthening the sustainable growth capacity of the economy not only through a substantial package of extra investments but also through a shift in taxation away from labour to polluting activities and consumption. Substantial changes in the tax and social security structure are being introduced to stimulate participation in the labour market. Over the Cabinet's term in office, revenues will increase by € 46 billion, of which € 11.5 billion is accounted for by policy changes.

Developments on the expenditure side

The government's new policies are categorized into six pillars that will contribute to an economy able to withstand challenges on a short, medium and long horizon. The quality of public finances as a focus on enhancing the efficiency and effectiveness in public spending and in particular raising sustainable growth is reflected in four out of these six pillars. These four pillars are: "Towards an innovative, competitive and enterprising economy" (pillar II), "Sustainable living environment" (pillar III), "Participation and social cohesion" (pillar IV) and "Safety, stability and respect" (pillar VI). These are the pillars that will also contribute most to the fulfilment of the goals of the Lisbon strategy for economic growth and jobs through sustainable development[8]. The pillars and the attending *increase* in expenditure are given in the table below.

Tabel 5.1 Expenditure increases in the six pillars

	2008	2011
I. An active and constructive role of the Netherlands in Europe and the world	100	400
II. Towards an innovative, competitive and enterprising economy	200	850
III. Sustainable living environment	215	800
IV. Participation and social cohesion	1765	3578
V. Safety, stability and respect	200	700
VI. A more service-oriented and more efficient government	175	600

Pillar II aims at enhancing the economic structure through various measures to boost competitiveness and innovation. The increase in expenditures under this pillar will be € 200 million in 2008, rising to € 850 million in 2011. Extra money is to be spent on matters such as research and social innovation programmes in the field of health care, water management and (sustainable) energy. To stimulate entrepreneurial initiative, extra funds are allocated to, among other things, innovation vouchers to all small and medium-sized businesses, granting micro-credits to business starters and rapidly expanding small and medium-sized enterprises.

Pillar III concerns the creation of a sustainable living environment in combination with a decreased dependency on fossil fuels. The environment is an important exponent of market failure. As the benefits of beneficial behaviour accrue to everyone, whereas the costs are born by individuals, the market fails. Government intervention can therefore increase the well-being of its citizens, now and in the future. In 2008, funds will be available for energy-saving instruments and environmental-friendly energy production. Additional measures will be taken to promote a more sustainable living environment and make the Netherlands more climate-proof. In 2008 € 215 million *extra* will be spent on creating a sustainable environment. The measures on the revenue side are described below. The greening of taxation is a central element in the Dutch Tax Plan 2008.

Pillar IV aims at participation. Labour participation is the foremost route to participation in society and the creation of greater well-being for all. In the paragraph discussing the economic and budgetary effects of major structural reforms, the measures taken are described in more detail. In 2008, expenditures on social cohesion and labour participation will be increased by € 1,765 million, growing to € 3,578 million extra outlays in 2011 (grand total over Cabinet's term in office).

Pillar VI aims at more service-oriented and more efficient government. On the one hand, this entails some extra outlays for improving services and enhancing the cultural sector (with expenditure increases in this pillar rising from € 175 million in 2008 to € 600 million in 2010). On the other hand, it also includes an expenditure cutback. Government policy will be more efficiently implemented

[8] Refer to the 2007 update of the national reform program for a more detailed overview of policy measures in light of the Lisbon

resulting in a reduction of almost 13,000 jobs in the government sector over the Cabinet's term in office (a saving of € 630 million per year). Moreover, efficiency measures will be taken within the public sector as regards material expenditure, in particular through a more sober information and communication policy. Also, more efficient implementation of social security schemes will both reduce expenditures and increase the effectiveness of public policy. This is achieved by, for instance, merging the municipal authorities' work reinstatement and labour participation budgets which are aimed at reducing the number of income support applications.

Although the government increases spending, the EMU balance will improve. The government is targeting a structural surplus of 1% of GDP in 2011. Of course, the budgetary framework underlies policy choices in all six pillars and, as such, makes policy choices more efficient and effective. Sound public finances are a prerequisite for an environment in which the economy can flourish.

The table below presents an overview of developments in expenditures. While expenditures on public service clearly decrease in the coming years, expenditures on infrastructure, safety and education increase more than expenditures on social security. Notwithstanding the overhaul of the health care sector in 2006, expenditures on health care are expected to increase by 3% in real terms.

Table 5.2 Developments in categories of government expenditures

	2007	**2011**	**2008-2011**
	% of GDP	% of GDP	Real yearly growth
Public service	10.0	9.5	- ½
Safety	1.8	1.9	3¼
Defence	1.2	1.2	0
Infrastructure	1.7	1.8	2½
Education	5.1	5.3	1½
Publicly financed health	8.9	9.6	3
Social security	11.2	11.2	2½
Transfers to companies	1.9	1.9	1¾
International cooperation	2.3	2.2	½

Administrative burden

Progress may be hindered by an overabundance and overcomplexity of rules or overly rigid implementing practices. That is why the government aims to further reduce regulatory costs, including administrative burdens, for businesses, citizens, professionals and institutions (within government). Working in tandem with target groups, such as entrepreneurs, citizens and professionals (at the workplace), the government aims to curb complex rules and rigid implementing practices. This approach is based on trust and the principle that more responsibility for the parties to

strategy.

interpret the rules involved can also lead to a more efficient and effective way of monitoring compliance. Hence, firm measures will be taken only in cases where trust is breached. To ensure that citizens, professionals and entrepreneurs actually assume responsibility the government will improve the quality of its services.

Following an earlier net reduction in the administrative burden of 20%, the Cabinet has decided to take measures to achieve a 25% net reduction in the regulatory burden for businesses (comprehensive problem-driven programme). To ensure that entrepreneurs notice the decreasing regulatory burden, the Cabinet has broadened its approach: in addition to reducing the administrative burden, the regulatory costs ensuing from substantive compliance costs, permits, supervision, grants, tendering procedures and services for entrepreneurs and administrative pressure will be addressed. The Cabinet will assess whether there actually is a noticeable reduction in the regulatory burden for businesses.

Developments on the revenue side

Three spearheads are addressed in the plans of the Cabinet for revenues. Those three spear heads are encouraging innovative entrepreneurship, greening and simplification.

The tax policy of this Cabinet marks a step towards the greening of the Dutch tax system. The Cabinet aims to take transparent measures that better reflect the environmental effects of products in consumer prices. Measures to achieve this goal include the introduction of a tax on flight tickets, the introduction of a tax on packaging materials, differentiation of car taxation making polluting and uneconomical cars more expensive and environmentally friendly and economical cars cheaper and, finally, an increase in excise duties on environmentally-unfriendly fuels. The financial burden on environment-unfriendly activity will increase by € 1.6 billion a year over the Cabinet's term in office.

Encouraging labour participation is a key objective of this government. This is realised by a variety of measures (see also the section on the economic and budgetary effects of structural reforms in chapters 2 and 3) such as the gradual abolition of the general tax credit (increase of financial burden by € 1.5 billion) paid to partners earning no income or a low income, a reinforcement of the earned income tax credit (decrease of financial burden by € 0.5 billion) and a reinforcement of the income-related supplementary combined credit (decrease of financial burden by € 0.4 billion). On the other hand, the VAT rate will be raised by 1%-point.

As of 1 January 2008, small and medium-sized businesses will pay a lower rate of corporate income tax. Running a business will become fiscally more attractive as a result of adjustment of the first two brackets of corporate income tax as well as the rates. By extending the first bracket from € 25,000 to € 40,000, the lowest rate of 20% will apply up to a taxable amount of € 40,000. The second bracket is extended from € 40,000 to € 200,000. Moreover, the rate in this bracket will be lowered from 23.5% to 23% meaning so that the latter will apply to taxable amounts ranging from € 40,000 to € 200,000.

Finally, the Promotion of Research and Development Act is further simplified and streamlined. This facilitates the reduction of administrative burdens and encourages innovative entrepreneurship.

Chapter 6 Sustainability of public finances

Policy strategy

The Dutch Cabinet is keen to meet to face the challenges of an ageing population. The ageing of the Dutch population will put pressure on the sustainability of public finances. Demographic projections show that with unchanged policies the ratio of pensioners to working persons will double in the period up to 2035. This, in turn, will lead to a widening discrepancy between expenditure and income from tax and social insurance contributions, since age-related expenditures (on state old-age pension (AOW) and health care) will rise faster than revenues.

According to both the CPB's and the EPC/European Commission latest study on the effects of ageing, public finances are not yet sustainable[9]. An important difference between the two studies relate to the calculation of tax revenues. In the CPB method the taxation of pension benefits instead of pension premiums is included whereas the commonly agreed method does not take into account the deferral of tax revenues. These deferred tax revenues are of importance when assessing the sustainability of Dutch public finances and should be taken into account.

Last year, the sustainability gap was calculated to be around 1.5% of GDP by the CPB. At the beginning of 2007, revised life expectancy projections caused this sustainability gap to rise to 2.5% GDP. The sustainability report of the European Commission in conjunction with the EPC calculated a sustainability gap close to this figure: 2.4% of GDP. This pointed to the need for further action.

[9] The results of the last CPB study into the costs of ageing can be found in CPB (2006), *Ageing and the sustainability of Dutch public finances.*

Table 6.1 Sustainability of public finances[10]

% of GDP	2005	2010	2020	2030	2050
Total expenditure*	45.1	45.2	47.0	49.3	50.4
Of which: - age-related expenditure	20.5	20.6	22.4	24.7	25.8
Pension expenditures	7.4	7.6	9.0	10.7	11.2
Health care	6.1	6.3	6.7	7.1	7.4
Long term care	0.5	0.5	0.5	0.8	1.1
Total revenue*	45.9	45.7	45.6	45.3	44.8
Pension reserve fund assets	140.8	159.0	196.1	230.5	241.9
Assumptions					
Labour productivity growth	0.8	1.7	1.7	1.7	1.7
Real GDP growth	1.4	2.1	1.6	1.3	1.7
Total participation rates (aged 15 – 64)	77.1	77.8	79.1	79.3	80.5
Population aged 65+ over total population (%)	20.7	22.2	29.2	37.2	40.6

* These figures have not been published by the AWG. The method is derived from the sustainability report 2006: the non-age-related revenues and expenditures are kept constant at the 2005 level (taken from tabel a.3.5 of Public Finance Report 2007). Age-related revenues (property income, D4) and expenditures are then added to make up the grand total.

Policies to enhance sustainabiity

The Cabinet poses much emphasis on addressing the costs of ageing and promoting the sustainability of public finances. There are three general ways in which the government can tackle the sustainability issue: 1) saving through budget surpluses, 2) increasing labour force participation and 3) implementing reforms in ageing-sensitive institutions (e.g. social provisions). The government employs all three methods.

The government saves by achieving a budget surplus in all upcoming years. This will enable the government to pay off a share of its debt. Debt is projected to decrease to below 40% of GDP. At the same time, the stock of natural gas resources will diminish. According to the CPB, the natural gas stock will decrease by 7% of GDP between 2007 and 2011[11]. As a result of the lower public debt, interest expenditure will decrease and part of the burden of ageing is shifted away from future generations.

Increased labour force participation will also benefit the sustainability of public finances. Labour force participation in the Netherlands has been rising, and is projected to rise for the years to come,

[10] Please note that projecting the costs of an ageing population is done on an irregular and low frequency basis. Economic outlooks with a shorter horizon have a higher frequency but do not lead to updates of AWG projections or CPB ageing projections per se. Therefore a discrepancy may arise between the AWG and CPB assumptions in the first years of the long term projections. Currently, the 2005 and 2010 figures differ between medium and short term on the one hand and long term on the other hand.

[11] Centraal Plan Bureau, Actualisatie Economische Verkenning (2008 – 2011), September 2007

mainly due to increasing participation of women. A more extensive overview of the economic and budgetary implications of structural reforms can be found in chapter 2. Most important for improving the sustainability of public finances are: (1) the gradual abolition of the transferability of the general tax credit between fiscal partners, except for parents with children under the age of six, (2) the introduction of an earned income tax credit and an individual and income-related tax credit for parents combining work and care, which will make participating in the labour force more attractive and (3) a shift in the tax burden from labour to consumption, wealth and the environment. Decreasing income taxes will have a positive effect on participation across the board.

In addition to these measures, reforms have also been implemented to curb ageing-sensitive expenditures on health care and state old-age pensions. These measures will also improve the sustainability of public finances after the Cabinet term ends in 2011.

First of all, from those born after 1945 are required to contribute to the state old-age pension in the form of a levy to be raised from the age of 65 provided the individual has a relatively high income (supplementary pension of at least € 18.000 on top of state pension). Because the government feels strongly that participation is key to addressing the ageing challenge, this levy will on balance not be charged to those who participate until they turn 65.

To curb expenditures on health care, a deductible was introduced. In addition, a private contribution according to ability to pay will be required under the Exceptional Medical Expenses Act ("AWBZ, Algemene Wet Bijzondere Ziektekosten").

All these policies will help to improve the sustainability of the government finances. They are expected to continue contributing to this goal even after when the Cabinet's term has ended in 2011. All measures taken together will improve the sustainability gap by 0.7%-point.

Chapter 7 Institutional features of public finances

Fiscal rules of the new Cabinet

New set of fiscal rules

As mentioned before, the central goal of the budgetary policy of the new Cabinet is to achieve a budget surplus of the general government of 1% of GDP in 2011, measured in structural terms (EU definition). It should be stressed that the chosen set of fiscal rules is key to realizing the 2011 surplus goal.

At one of its first meetings the Cabinet decided on the (new) set of fiscal rules, based on past experiences with the fiscal rules of previous Cabinets. The so-termed 'trend based budgetary policy' in use since 1994 will be continued during the term of this Cabinet[12]. This is unchanged. On the basis of past experiences the new set includes three improvements.

Continuation of trend based budgetary policy

The most prominent feature of the new set of fiscal rules is the continuation of the trend-based budgetary policy. The three key characteristics of the rules are maintained: (i) fixed real expenditure ceilings, (ii) an iron curtain between expenditure and revenue and (iii) a single decision-making moment for the new budget.

The system of fixed expenditure ceilings will be maintained by this Cabinet. For every year in the period 2008-2011 fixed ceilings have been set and published in the Budget Memorandum 2008. The scope of the respective ceiling remains unchanged: i) state government, ii) health care and iii) social security and labour market. The expenditure ceilings are again measured in real terms (the deflator is the price of national expenditure).

A strict division between expenditure and revenue remains. As regards revenues, i.e. taxes, social insurance contributions and gas revenues, automatic stabilizers should be able to operate freely during the Cabinet period. There is one exception to this rule. The operation of the automatic stabilizers on the revenue side can be restricted if the government deficit exceeds the so-called signal value of 2% of GDP. When the deficit reaches 2% of GDP, the rules state that government shall take measures to prevent a further deterioration of the government deficit so that it does not exceed the 3% of GDP threshold value of the SGP.[13]

The system in which there is, in principle, only a single decision-making moment on the new budget will be continued. Every spring, the Cabinet decides on the (expenditure side of the) new budget and on the execution of the current budget. The Cabinet looks further into revenues (taxes) and measures concerning the purchasing power of specific groups within society in August. The single decision moment provides relative rest in fiscal policy.

Last but not least, it should be mentioned that the rules for the day-to-day fiscal management have been reconfirmed by the new government. Important elements are that the line ministries should solve expenditure overruns in their own budget and that windfalls may not be used for new policies.

---

[12] For an excellent overview of Dutch policy making since the early 19th century, see Frits Bos (2007) "The Dutch fiscal framework: history, current practice and the role of the CPB" CPB document 150

[13] The actual MTO of the Netherlands is a structural deficit between 0,5 and 1,0 % GDP, as mentioned in Chapter 3

Three improvements

On three points the set of fiscal rules has been improved. These improvements are the result of past experiences. It is not the first time since the introduction of the 'structural budgetary policy' in 1994 that changes were introduced in the set of fiscal rules.

The first improvement is the exclusion of interest expenditure on the state debt from the expenditure ceilings. This exclusion makes the expenditure ceilings less vulnerable to the economic cycle. Second, the so-called 'signal value' (i.e. the value when measures should be taken in order to avoid further worsening of the deficit) has been strengthened by the new Cabinet. Under the previous government a signal value of the government deficit of 2.5% of GDP was in force. This 2.5% has been replaced by a value of 2% of GDP. Third, the assumption of the economic growth underpinning fiscal policy has been changed. This Cabinet uses trend-based economic presumptions. Before, so-called cautious economic assumptions were in use. The advantage of trend-based economic vis-à-vis cautious economic assumptions is above all a managerial one. The use of cautious presumptions creates additional room in future budgets. When these reserves materialize every year around the time of the single decision making moment the Cabinet could become overly optimistic where the room for manoeuvre in fiscal policy is concerned. Such an optimistic atmosphere is not helpful if, for example, spending cuts are needed. As a result, unnecessary windfalls and the accompanying political pressure for higher expenditure and/or tax cuts are prevented

Relationship between quality of public finances and institutions

The existence of independent organizations in the field of forecast and official statistics contributes to (a higher level of) the quality of public finances in the Netherlands. The Netherlands has a long standing tradition in the area of budgetary institutions. The statistical office (Statistics Netherlands) has been in existence for over 100 years and the forecasting agency, the CPB, for over 50 years.

Statistical governance

Statistics Netherlands is the official producer of most Dutch macroeconomic statistics. Key indicators such as GDP, CPI, government deficit and debt and the national accounts are compiled by Statistics Netherlands. All public finance data of past years, whether on an annual or a quarterly basis, are compiled by Statistics Netherlands. Statistics on the quality of public finances such as COFOG statistics are also compiled by Statistics Netherlands.

The status of Statistics Netherlands has a strong legal basis in the Statistics Act 2003. Statistics Netherlands has the legal status of an independent public body and operates on the basis of an independent statute. Its independence allows it to compile reliable and high quality statistics on public finances. In 2005, Statistics Netherlands and the Ministry of Finance concluded a protocol on the Netherlands' reports to the European Commission on the general government balance and debt (the notifications before April 1 and October 1 on the general government deficit and debt and the quarterly public finance accounts and the 31 March report). The protocol contains agreements about the responsibilities and division of tasks between the Statistics Netherlands and the Ministry of Finance regarding these reports. The Ministry of Finance compiles figures on public finance for the forecast years. These calculations are based on economic forecasts made by the CPB, which also has an independent statute. The IMF recently examined data quality of, amongst other things, the government finance statistics of the Netherlands[14]. The IMF ROSC shows that, where Government Finance Statistics are concerned, the Netherlands attained the highest score ('practice observed') on 18 out of 22 categories.

The role of independent forecasts

The past few years have witnessed a discussion on the role of independent fiscal councils as guardians of sound budgetary policy making. In 2006 the IMF took a closer look at the Dutch budgetary framework in its fiscal ROSC for the Netherlands[15]. According to this report, one of the outstanding features was the CPB's unique role in the policy making process owing to its technical reputation and its independence. The CPB provides the economic outlook as well as its own budgetary outlook. The economic outlook is independent input into the budget making process, while the budgetary outlook provides an independent second opinion on the government's budget and institutional measures. Moreover, the CPB performs cost-benefit calculations of public investment projects. The IMF concluded: "The CPB appears to span the full spectrum of activities identified in the recent IMF's analysis of independent Fiscal Councils."

[14] IMF(2007), "The Netherlands – Report on the Observance of Standards and Codes – Data Transparency Module
[15] IMF(2006), "The Netherlands - Report on the Observance of Standards and Codes – Fiscal Transparency Module"

ANNEX I Tables[16]

Table A.1a Macroeconomic prospects

	ESA Code	2006 level	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change
Real GDP	B1*g	534.03	3.0	2 ¾	2 ½	1 ¾	1 ¾
Nominal GDP (€ bln)	B1*g	534.03	5.0	4 ¼	4 ½	3 ¾	3 ¾
Components of real GDP							
Private consumption expenditure	P.3	253.48	-0.8	2	2	1 ¼	1 ¼
Government consumption expenditure	P.3	135.40	9.4	2 ¼	½	1 ½	1 ½
Gross fixed capital formation	P.51	105.28	10.0	5 ¼	4 ¾	2	2
Changes in inventories	P.52+P.53	0.79	-0.1	0	0	0	0
Exports of goods and services	P.6	391.35	7.0	6 ¼	6 ½	5 ¾	5 ¾
Imports of goods and services	P.7	351.60	8.1	6 ½	6	5 ½	5 ½
Contributions to real GDP growth*							
Final domestic demand			3.2	2 ¼	2	1 ¼	1 ¼
Changes in inventories (Δ)	P.52+P.53		0	0	0	0	0
External balance of goods and services	B.11		-0.2	½	½	½	½

* Imports have been subtracted from the respective demand categories

[16] Please be aware that tables present rounded numbers. In some cases the sums of lines may therefore deviate from the individual lines due to rounding.

Table A.1b Price developments

	ESA Code	2006 level	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change
GDP deflator		100	1.9	1 ½	2	1 ¾	1 ¾
Private consumption deflator		100	2.3	2 ¼	2 ¼	1 ¾	1 ¾
HICP		101.7	1.7	1 ½	2 ¼	2	2
Public consumption deflator		100	1.9	3	3	3	3
Investment deflator		100	1.6	1 ¾	1 ½	1	1
Export price deflator		100	2.9	¼	¾	-1	-1
Import price deflator		100	3.3	1 ½	1 ¼	-1	-1

Table A.1c Labour market developments

	ESA Code	2006 level	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change
Employment (x thousand persons)		8383	1.2	2 ½	1 ¼	½	½
Employment (bln of hours worked)		11.2	1.8	2 ¼	1	½	½
Unemployment (% of labour force)		3.9	3.9	3 ¼	2 ¾	3	3
Labour productivity (persons)		63.7	1.8	¼	1 ¼	1 ¼	1 ¼
Labour productivity, hours worked		9.68	1.2	½	1 ½	1 ½	1 ½
Compensation of employees	D.1	263.1	3.8	4	5 ¼	4 ¼	4 ¼
Compensation per employee		41.2	2.3	2	4	3 ½	3 ½

Table A.1d Sectoral balances

	ESA Code	2006	2007	2008	2009	2010
Net lending/borrowing vis-à-vis the rest of the world	B.9	7.7	6.6	6.5	7.2	7.5
Of which:						
- Balance on goods and services		7.4	6.7	6.9	7.1	7.5
- Balance of primary incomes and transfers		1.6	1.3	1.0	1.1	1.2
- Capital account		-1.4	-1.4	-1.4	-1.1	-1.2
Net lending/borrowing of the private sector		7.0	7.0	6.0	6.6	6.8
Net lending/borrowing of general government		0.6	-0.4	0.5	0.6	0.7
Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table A.2 General Government budgetary prospects

	ESA Code	2006	2006	2007	2008	2009	2010	2011
		level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B9) by subsector								
1.General government	S.13	3036	0.6	-0.4	0.5	0.6	0.7	1
2. Central government	S.1311	4221	0.8	-0.1	0.4	1.2	1.1	1.2
3. State government	S.1312	M	M	M	M	M	M	M
4. Local government	S.1313	75	0.0	-0.1	-0.1	0.0	0.0	0.0
5. Social security funds	S.1314	-1260	-0.2	-0.3	0.1	-0.5	-0.4	-0.3
General government (S13)								
6. Total revenue	TR	249319	46.7	45.9	46.9	46.9	47.2	47.4
7. Total expenditure	TE	246283	46.1	46.3	46.4	46.3	46.5	46.4
8. Net lending/borrowing	EDP B9	3036	0.6	-0.4	0.5	0.6	0.7	1
9. Interest expenditure	EDP D.41	11744	2.2	2.2	2.2	2.1	2.0	1.9
10. Primary balance		14780	2.8	1.8	2.7	2.7	2.7	2.9
11. One-off and other temporary values		0.0	0.0	0.0	0.0	0.3	0.0	0.0
Selected components of revenues								
12. Total taxes (12=12a+12b+12c)		132393	24.8	25.4	25.5	26.0	25.9	25.6
12a. Taxes on production and imports	D.2	68135	12.8	13.1	13.2	13.8	13.8	13.7
12b. Current taxes on income, wealth etc.	D.5	62447	11.7	12.0	12.0	11.9	11.8	11.6
12c. Capital taxes	D.91	1811	0.3	0.3	0.3	0.3	0.3	0.3
13. Social contributions	D.61	80860	15.1	14.5	14.9	14.4	14.8	15.3
14. Property income	D.4	14514	2.7	2.4	2.8	2.7	2.5	2.4
15. Other revenues		21552	4.0	3.6	3.7	3.8	4.0	4.1
16.=6. Total revenue	TR	249319	46.7	45.9	46.9	46.9	47.2	47.4
PM: Tax burden (D.2+D.5+D.61+D.91-D995)		213253	39.9	39.9	40.4	40.4	40.7	40.9
Selected components of expenditure								
17. Compensation of employees and intermediate consumption	D.1+P.2	88639	16.6	16.4	16.4	16.5	16.5	16.5
- 17a. Compensation of employees	D.1	50404	9.4	9.3	9.3	9.4	9.5	9.6
- 17b. Intermediate consumption	P.2	38235	7.2	7.1	7.1	7.1	7.0	6.9
18. Social payments (18=18a+18b)		110944	20.8	21.0	21.2	21.2	21.4	21.6
18a. Social transfers in kind supplied via market producers	D.6311. D63121. D63131	58833	11.0	10.9	11.0	10.9	10.8	10.8
18b. Social transfers other than in kind	D.62	52111	9.8	10.1	10.2	10.3	10.6	10.8
19.=9. Interest expenditure	EDP D.41	11744	2.2	2.2	2.2	2.1	2.0	1.9
21. Subsidies	D.3	6274	1.2	1.3	1.3	1.3	1.3	1.3
21. Gross fixed capital formation	P.51	17402	3.3	3.3	3.2	3.2	3.2	3.1
22. Other		11280	2.1	2.1	2.1	2.1	2.1	2.1
23.=7. Total expenditure	TE	246283	46.1	46.3	46.4	46.3	46.5	46.4
P.M.: Government consumption (nominal)	P3	135404	25.3	25.6	25.4	25.6	25.9	26.2

Table A.3 General government expenditure by function

% of GDP	COFOG Code	2005	2006	2010
1 General public service	1	7.6	7.3	6.9
2 Defence	2	1.4	1.5	1.5
3 Public order safety	3	1.8	1.8	1.9
4 Economic affairs	4	4.8	4.7	4.8
5 Environmental protection	5	0.9	0.8	0.7
6 Housing and community amenities	6	1.0	1.0	0.9
7 Health	7	4.4	5.9	6.6
8 Recreation. culture and religion	8	1.5	1.4	1.3
9 Education	9	5.2	5.1	5.3
10 Social protection	10	16.5	16.5	16.5
11 Total expenditure	TE	45.2	46.1	46.5

Table A.4 General Government debt developments

% of GDP		2006	2007	2008	2009	2010
1. Gross debt		47.9	46.8	45	43	41.2
2. Change in gross debt ratio		-4.4	-1.1	-1.8	-2	-1.8
Contributions to changes in gross debt						
3. Primary balance		-2.8	-1.8	-2.7	-2.7	-2.7
4. Interest expenditure	EDP D.41	2.2	2.2	2.2	2.1	2.0
5. Stock-flow adjustment		-3.8	-1.5	-1.3	-1.4	-1.1
Of which : - differences between cash and accruals		0.3	0.4	0.2	0.2	0.2
- Net accumulation of Financial assets		-1.5	0.0	0.6	0.1	0.1
of which - privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effect and other		0.0	0.0	0.0	0.0	0.0
PM: implicit interest rate		4.6	4.7	4.9	4.9	4.9
6. Liquid financial assets		NA	NA	NA	NA	NA
7. Net financial debt (7=1-6)		NA	NA	NA	NA	NA

Tabel A.5 Cyclical developments

	ESA Code	2006	2007	2008	2009	2010
1. Real GDP growth		3.0	2 ¾	2 ½	1 ¾	1 ¾
2. Net lending of general government	EDP B.9	0.6	-0.4	0.5	0.6	0.7
3. Interest expenditure	EDP D.41+ FISIM	2.2	2.2	2.2	2.1	2.0
4. One-off and other temporary measures		0.0	0.0	0.0	0.3	0.0
Potential GDP growth		2	2.1	2.1	2.1	2.0
Contributions to growth:						
- Labour		0.3	0.4	0.3	0.3	0.3
- Capital		0.7	0.7	0.8	0.7	0.7
- Total factor productivity		1.1	1.0	1.0	1.0	1.0
6. Output gap		-0.8	-0.2	0.2	-0.1	-0.3
7. Cyclical budgetary component		0.5	0.1	-0.1	0	0.2
8. Cyclically-adjusted balance (2+7)		1.1	-0.3	0.4	0.6	0.8
9. Cyclically-adjusted primary balance (8+3)		3.3	1.9	2.6	2.7	2.8
10. Structural balance (8-4)		1.1	-0.3	0.4	0.4	0.8

Table A.6 Divergences from previous update

	ESA Code	2006	2007	2008	2009	2010
Real GDP growth (%)						
Previous update		3¼	3	1¾	1¾	NA
Current update		3.0	2 ¾	2 ½	1 ¾	1 ¾
Difference		- ¼	- ¼	+ ½	0	NA
General government net lending (% of GDP)	EDP B.9					
Previous update		0.1	0.2	0.3	0.9	NA
Current update		0.6	-0.4	0.5	0.6	0.7
Difference		+0.5	-0.6	+0.2	-0.3	NA
General government gross debt (% of GDP)						
Previous update		50.2	47.9	46.3	44.2	NA
Current update		47.9	46.8	45.0	43.0	41.2
Difference		-2.3	-1.1	-1.3	-1.2	NA

Table A.7 Sustainability of public finances in the long term

% of GDP	2005	2010	2020	2030	2050
Total expenditure*	45.1	45.2	47.0	49.3	50.4
Of which: - age related expenditure	20.5	20.6	22.4	24.7	25.8
Pension expenditures	7.4	7.6	9.0	10.7	11.2
Social security expenditures	1.7	1.5	1.5	1.5	1.5
Old-age and early pensions	4.8	5.2	6.7	8.6	9.4
Other pensions (disability, survivors)	2.6	2.4	2.3	2.1	1.9
Occupational pensions	4.8	4.7	5.8	7.7	8.7
Health care	6.1	6.3	6.7	7.1	7.4
Long term care	0.5	0.5	0.5	0.8	1.1
Education expenditure	4.8	4.7	4.6	4.6	4.6
Other age-related expenditure	0	0	0	0	0
Interest rate expenditure	2.4	2.0	0.8	0.4	2.3
Total revenue*	45.9	45.7	45.6	45.3	44.8
Of which: property income	2.3	1.9	1.4	1.4	0.7
Of which: from pensions contributions	4.0	4.0	4.0	4.0	4.0
Pension reserve fund assets	140.8	159.0	196.1	230.5	241.9
Of which: consolidated public pension fund assets	0	0	0	0	0
Assumptions					
Labour productivity growth	0.8	1.7	1.7	1.7	1.7
Real GDP growth	1.4	2.1	1.6	1.3	1.7
Participation rate males (aged 15 -64)	84.0	83.1	82.8	82.2	83.2
Participation rate females (aged 15 – 64)	70.1	72.4	75.4	76.3	77.7
Total participation rates (aged 15 – 64)	77.1	77.8	79.1	79.3	80.5
Unemployment rate	3.5	3.2	3.2	3.2	3.2
Population aged 65+ over total population (%)	20.7	22.2	29.2	37.2	40.6

* These figures have not been published by the AWG. The method is derived from the sustainability report 2006: the non-age-related revenues and expenditures are kept constant at the 2005 level (taken from tabel a.3.5 of Public Finance Report 2007). Age-related revenues (property income, D4) and expenditures are then added to make up the grand total.

Table A.8 External assumptions

	2006	2007	2008	2009	2010
Short-term interest rate (annual average)	3.1	4	4 ½	4 ½	4 ½
Long-term interest rate (annual average)	3.8	4 ¼	4 ½	4 ½	4 ½
USD/€ exchange rate (annual average)	1.26	1.34	1.35	1.38	1.42
Nominal effective exchange rate	0.6	3	¼	1	1
World GDP growth	5.3	5	5	4 ¾	4 ¾
EU GDP growth	3.3	3	2 ¾	2 ½	2 ½
World GDP growth excluding EU	6.2	5 ¾	6	5 ¼	5 ¼
Growth of relevant foreign markets*	7.7	6 ¼	6 ½	6 ¼	6 ¼
World import volumes, excluding EU	7.6	6 ¾	6 ¾	6 ½	6 ½
Oil prices (Brent, USD per barrel)	65.2	69	75	65	65

Source: CPB document 151, figures for world GDP growth, EU GDP growth, and world GDP growth excluding EU are consistent with this document but not provided there; Oil prices are the ministry of Finance's own estimates.
* Taken to be equivalent to the Dutch "*relevant wereldhandelsvolume*" (volume of relevant world trade)