Ministerie van Financiën

Stability Programme of the Netherlands

November 2008 Update

Contents

Chapter 1 Overall policy framework and objectives

At the moment, the internationally oriented Dutch economy is experiencing a slowdown, induced by a severely deteriorating world economic outlook. This is mainly the result of the international financial crisis, which, in particular, will induce a declining growth in exports. **As a clarification, it must be noted explicitly that in this update of the Stability Programme the starting points for the quantitative analysis are the most recent short and medium-term outlook as provided by the CPB Netherlands Bureau for Economic Policy Analysis and the Cabinet's "Budget Memorandum 2009", dating from September 2008. These projections were performed before the financial turmoil hit Europe. The sensitivity analysis performed in Chapter 4 will therefore be given greater attention than usual. Also, the recent interventions in the financial market by the Dutch government had not yet taken place and are therefore not reflected in the numbers. This is especially relevant for the debt ratio, as the interventions immediately impact this variable (as opposed to the budget balance). Qualitative information will be presented in boxes to account for the performed interventions.**

On the 22nd of February 2007 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 as well as 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. Now, more than a year further, we can establish that the Cabinet is well on track to achieve its stated ambitions. In particular, some structural reforms have been carried out, mainly with regards to the sustainability of public finances through a set of measures aimed at increasing labour participation. Also the 1% structural surplus target for 2011 is achievable, as in 2009 a structural surplus of 1.1% is expected.

On the basis of the latest forecasts, the Dutch economy in 2008 was still expected to grow above its potential growth rate of 2%, namely by 2.25%. In addition, public finances were expected to be steadily improving. In 2008 the budget balance surplus was expected to ameliorate from 0.3% in 2007 to 1.2% in 2008 and the debt ratio to be reduced by 2.6 percentage points to 42.1%. Moreover, the structural balance was expected to reach a surplus of 0.9% in 2008. The projected path for the structural balance in the Budget Memorandum 2009 is in line with the Medium Term Objective (MTO).

The Cabinet commits to stay within its real expenditure ceilings. Given the macro-economic outlook as presented above, this is projected to result in surpluses up to 2011. However, given the current storm in the financial markets and its uncertain impact on the real economy, the actual budgetary outcomes (i.e. deficit and debt ratio) will differ from the baseline projections provided in this update, with considerable risks pointing to the downside. The scenario analysis accounts for that.

With respect to fiscal governance, this Cabinet is adhering to the budgetary institutions that have served previous governments well, but it has also improved on some elements. Just like during previous governments, 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.[1] 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. In the current turmoil of the financial crisis this entails that the Cabinet refrains from any additional structural consolidation, as long as the signal value of a 2% of GDP budget deficit is not reached. This promotes tranquillity, stability and transparency in our budgetary process and ensures that the Cabinet can fulfil its ambitions.

Some elements of the Dutch 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. Furthermore, interest expenditure has been taken out of the expenditure ceilings to diminish pro-cyclicality.

Lastly, the Cabinet has introduced a new budgetary methodology with respect to the treatment of gas revenues (for more information regarding how gas revenues are treated in the national accounts, see the box in chapter 3). Favourable natural gas revenues are immediately reflected in the budget balance, since the government maintains fixed input for the FES (fund for structural reinforcement of the economy). This entails that extra gas revenues do not translate into additional expenditures. At the same time, if actual gas revenues are less than expected *a priori* due to a decreasing oil price, the budget balance will be negatively affected. In addition, the Cabinet has developed a new system regarding the funding of the FES, starting from 2012.

The essence of this new system is that funding for the FES will be based on a share of the return of the total value of natural gas resources[2]. The new system ensures that (a share of) the remaining natural gas resources will be converted into a structural and stable series of FES funding, meaning that FES funding will continue even after gas resources are completely dried up. This way, also future generations will be able to enjoy the benefits of gas resources. Each new Cabinet will decide which share of the interest that becomes available will be reserved as input for FES funding. The input will then be fixed for the whole Cabinet's term of office. As stated above, mutations in gas revenues during the Cabinet term of office will therefore not affect FES funding. This eliminates the risk of overly hasty decision making in the case of revenue windfalls and that of a cut in funding for initiated projects in the case of revenue falls. In reaction to a study by the Dutch Central Bank[3], the Cabinet will also look into alternative means for retention of wealth stemming from national gas resources other than the by this Cabinet preferred option as reflected in the new system of FES funding.

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[1] More details on the expenditure ceilings will be provided in Chapter 7.

[2] The total value of gas resources is defined as the present value of the series of (expected) natural gas revenues from 2012 onwards.

[3] Wierts, P. en Schotten, G. (2008), De Nederlandse gasbaten en het begrotingsbeleid: theorie versus praktijk, DNB Occasional Studies, Vol.6/No.5 (2008).

This update is based on the Coalition Agreement, the 2009 budget and the CPB 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 28 November 2008, 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 1 February 2008.

Chapter 2 Economic outlook

This chapter will present an overview of the current macro economic situation. As stressed in chapter 1, this baseline scenario is based upon the most recent short and medium-term outlook as provided by the CPB Netherlands Bureau for Economic Policy Analysis and the Cabinet's "Budget Memorandum 2009", dating from September 2008. Since these projections, downside risks have considerably augmented as a result of developments in relation to the financial crisis. These downside risks are not yet reflected in the numbers and explain the substantial differences with the latest projections by the Commission. The sensitivity analysis in chapter 4 will present alternative scenarios in order to account for these downside risks in the best possible manner. These scenarios on top of the baseline scenario are meant to be more in line with the current economic outlook.

World economy and technical assumptions

The short-term economic outlook for the world and Europe is clouded, due to significant downside risks associated with the current developments on the financial markets and their impact on the real economy. The overall picture is one of a sharp deterioration compared to last year's update. It must be stressed that the projections are provisory and subject to an extraordinarily degree of uncertainty, as momentarily conditions can change very rapidly and alter the outlook substantially.

The external assumptions underlying the Dutch baseline scenario 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 (financial crisis, oil price, exchange rate and a fall in the stock market). Since the latest projections were finalised well before the recent intensification of the financial market turmoil, the scenarios will primarily focus on a "low growth environment" to account for recent developments.

The table below shows the external assumptions for the short and medium-term economic outlook, as applied in the Budget Memorandum 2009. The period up to 2009 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 2010 and 2011 are also based on work by the CPB Netherlands Bureau for Economic Policy Analysis[4] but on reports pertaining to the medium term outlook dating from 2007[5].

[4] CPB, "Macro Economische Verkenning 2009", September 2008.
[5] CPB, "Actualisatie Economische Verkenning 2008-2011", September 2007

Table 2.1 External assumptions

	2007	2008	2009	2010	2011
Short-term interest rate (annual average)	4.3	5	4 ¾	4 ½	4 ½
Long-term interest rate (annual average)	4.3	4 ½	5	4 ½	4 ½
USD/€ exchange rate (annual average)	1.37	1.55	1.57	1.45	1.45
Nominal effective exchange rate	3.9	5 ¾	½	1	1
World GDP growth	4.9	3 ¾	3 ½	4 ¾	4 ¾
EU GDP growth	3.1	1 ¾	1 ½	2 ½	2 ½
World GDP growth excluding EU	5.4	4 ½	4	5 ¼	5 ¼
Growth of relevant foreign markets*	6.3	3 ¼	3 ¾	6 ¼	6 ¼
World import volumes, excluding EU	9.9	6 ½	6 ¾	6 ½	6 ½
Oil prices (Brent, USD per barrel)	72 ½	118	125	68	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 for 2010 and 2011 are the ministry of Finance's own estimates.

* Taken to be equivalent to the Dutch "*relevant wereldhandelsvolume*" (volume of relevant world trade)

Cyclical developments and prospects according to the baseline

Supported by all major domestic demand categories (private consumption, investment and government spending) and exports, economic growth is expected to reach 2.25% in 2008. In 2009, however, growth will slow down to 1.25%, according to the Budget Memorandum 2009. Higher inflation leads to a drop in the growth of domestic expenditure. As a result the contribution of private consumption and investment to growth will be fairly minimal. In contrast, government spending remains substantial, primarily as a result of steady expenses related to the health sector.

Total private investment is expected to grow by 6.5% in 2008. Due to a remarkable increase of so-called non-cyclically sensitive investments, such as airplanes and big energy projects, the growth of business investment in fixed assets is higher than last year. In contrast, the slowdown in growth of cyclically sensitive investments is substantial, from 11.6% last year to 2.5% this year. This development is in line with falling production growth in the private sector and the diminished producer confidence.

In 2009 a turnaround is expected. After 4 years of growth, next year private investment is forecast to contract by 2.75%. Lagging production growth in the private sector holds on, lowering the need for investments in extra capacity. Thereby, investments have lower returns as profitability prospects worsen. Also, it is more difficult to attract capital as banks lend out less money and do so against higher premiums in response to the financial crisis. Because of these developments, the cyclically sensitive investments will decline sharply by 4.75%, accounting largely for the contraction in total private investment.

Private consumption growth is forecast at 1.5% this year and 1% in 2009. The main culprit for this slowdown is a less favourable development of real disposable family income, mainly as a result of a strong decline in employment growth. This is augmented by adverse developments in private wealth in the form of the real value of stocks and houses. For the first time since 2003 private wealth will negatively affect private consumption.

The developments sketched above do not only influence consumption, but also consumer confidence. Consumer confidence in 2008 has plummeted compared to 2007. Also the subindicator “willingness to buy”, which displays the strongest correlation with actual consumption spending, decreased significantly. Since there is usually a lag of half a year to a year between consumer confidence and consumer spending, the big fallback is expected to occur in 2009, as reflected in the forecast. The biggest decline in consumer spending is expected in consumer durables.

Table 2.2 Macroeconomic prospects

	ESA Code	2007	2007	2008	2009	2010	2011
		Level (bln €)	rate of change	rate of change	rate of change	rate of change	rate of change
Real GDP	B1*g	567.1	3.5	2 ¼	1 ¼	2	2
Nominal GDP	B1*g	567.1	5	4 ¼	4 ½	3 ¾	3 ¾
Components of real GDP							
Private consumption expenditure	P.3	264.3	2.1	1 ½	1	1 ¼	1 ¼
Government consumption expenditure	P.3	142.5	3.0	1 ¼	2	1 ½	1 ½
Gross fixed capital formation	P.51	113.2	4.9	4 ½	-1	2	2
Changes in inventories (Δ)	P.52 + P.53	- 1.6	-0.2	0.0	0.2	0	0
Exports of goods and services	P.6	424.8	6 ½	3 ¾	2 ¾	5 ¾	5 ¾
Imports of goods and services	P.7	376.1	5.7	3 ¾	2 ½	5 ½	5 ½
Contributions to real GDP growth							
Final domestic demand		520.0	2.7	1.9	0.8	1 ¼	1 ¼
Changes in inventories (Δ)	P.52+ P.53	-1.6	-0.2	0.1	0.0	0	0
External balance of goods and services	B.11	48.7	1	0.3	½	½	½

Medium-term scenario

The Dutch economy is facing uncertain times. Lack of clarity about the length and depth of the current crisis has clouded the economic outlook significantly. The baseline forecasts indicate that economic growth in 2008 will still amount to 2.25%, which is just above potential growth. Starting from 2009, however, the output gap will turn negative, and is expected to remain so in the medium-term. Seen from the supply side, growth in the medium term is mostly supported by total factor productivity growth (half of potential growth), with capital contributing 0.7 percentage points and labour contributing 0.4 percentage points.

Table 2.3 Cyclical developments

	ESA Code	2007	2008	2009	2010	2011
Real GDP growth		3.5	2 ¼	1 ¼	2	2
Potential GDP growth		2.3	2.4	2.2	2.1	2.0
Contributions to growth:						
- Labour		0.6	0.6	0.6	0.4	0.4
- Capital		0.7	0.8	0.7	0.7	0.7
- Total factor productivity		1.0	0.9	0.9	1.0	0.9
Output gap		0.65	0.6	- 0.35	-0.45	-0.45

Sectoral balances

The price competitiveness of Dutch exports will continue to deteriorate by 1.25% points this year. Labour costs in the Netherlands are developing unfavourably compared to those of main competitors, notably Germany. Growth in labour productivity is lower than that of our competitors, while the wage bill is increasing faster this year due to prolonged tightness on the labour market. However, price competitiveness of the tradeable sector is not deteriorating as quickly as might be expected on the basis of unit labour costs. The upward pressure on prices is somewhat absorbed through lower profit margins. However it can be expected that in the current economic conditions the forecasted upward pressure on prices will diminish. In 2009, for the first time in four years, the price competitiveness is not expected to deteriorate.

Despite a further deterioration of price competitiveness in 2008, the trade balance remains highly positive. Both the private and public sector are expected to be net lenders in international capital flows over the next three years. In the government’s case, this ceteris paribus would entail a reduction of the debt ratio (see chapters 3 and 6). Of course recent interventions in the financial markets have an upward effect on the Dutch debt position.

Table 2.4 Sectoral balances

% of GDP	ESA Code	2007	2008	2009	2010	2011
Net lending/borrowing vis-à-vis the rest of the world	B.9	9.5	8.5	9.5	7.5	8.0
Of which						
- Balance on goods and services		8.6	8.4	8.8	7.5	7.8
- Balance of primary incomes and transfers		2.7	1.7	1.8	1.2	1.3
- Capital account		-1.5	-1.5	-1.0	-1.2	-1.2
Net lending/borrowing of the private sector		9.2	7.2	8.2	6.8	6.9
Net lending/borrowing of general government		0.3	1.2	1.2	0.8	1.1
Statistical discrepancy*		0.0	0.0	0.0	0.0	0.0

***** *Figures may not add up to totals due to rounding.*

Labour market

Labour market tensions seem to ease somewhat due to the economic development, but the labour market continues to experience shortages. Although actual unemployment is still lower than the estimated natural rate of unemployment of approximately 5.75%, the drop in unemployment will end within the near future. In 2009, unemployment is expected to increase slightly from 4% in 2008 to 4.25% in 2009, as employment increases less than labour participation. Labour supply will continue to increase as a result of structural developments. Participation by women in the workforce will continue to increase, as will participation among older workers in the age category of 55 to 64 years. Growth in employment is declining as a result of a drop in production growth and deteriorating profitability. Despite the slight increase, unemployment in the Netherlands remains low compared to the Eurozone.

Contract wage increases in the baseline scenario are forecast at 3.25% in 2008 and 3.5% in 2009. Contract wage increases continue due to rising inflation and continuing labour market shortages. Aside from this development, the total wage costs will continue to rise in 2008 due to the 0.5% incidental wage development and the 0.5% increase in employers' social security contributions (due primarily to the increase in income-based health insurance contribution). The year 2009 will see an incidental wage development of 0.75%, but the wage costs in the market sector will be tempered by a 0.25% reduction in employers' social security contributions (reduction in unemployment benefit (WW) premium, drop in income-based health insurance contribution and drop in absenteeism due to illness). As a result, the wage costs in the market sector will increase by 4.25% this year and 4% in 2009. The current economic slowdown will also have implications for the situation on the labour market. Inflation (HICP) is expected to increase from 2.5% in 2008 to 3.25% in 2009 in the baseline scenario. Inflation is expected to rise next year due to higher import prices, particularly of raw materials, higher indirect taxes and a strong increase in unit labour costs. Responsible wage development is needed. The Cabinet has contributed to this objective by cutting the WW unemployment insurance premiums for employees to zero and is currently in dialogue with social partners to stress the importance of this issue. In the long run, responsible wage development will provide a positive contribution to national competitiveness by inhibiting the growth of real labour costs.

Table 2.5 Labour market developments

	ESA Code	2007	2007	2008	2009	2010	2011
		level	rate of change	rate of change	rate of change	rate of change	rate of change
Employment (x thousand persons)		8613	2.5	2	½	½	½
Employment (bln hours worked)		12.0	2.3	1¾	¼	½	½
Unemployment rate (% of labour force)		4.5	4.5	4	4 ¼	3	3
Labour productivity (persons)		65.8	1.0	¼	¾	1 ¼	1 ¼
Labour productivity, hours worked		9.8	1.1	½	1	1 ½	1 ½
Compensation of employees	D.1	279.7	3.4	4 ¼	4	4 ¼	4 ¼
Compensation per employee		47.3	3.2	4 ¼	4	3 ½	3 ½

Comparison with Autumn Forecasts

The budgetary and economic forecasts of the Dutch Cabinet and of the European Commission show some discrepancies, especially for the years 2009 and 2010. The reason for these differences is twofold. Firstly, as stressed repeatedly, the forecasts of the Dutch Cabinet were made in September, before the financial turmoil hit Europe significantly. The resulting global growth slowdown is therefore not sufficiently taken into account, resulting in more optimistic forecasts. Secondly, for 2010 the forecasts of the Dutch Cabinet are based on a medium-term outlook, which dates back to 2007. This causes the discrepancy with the EC forecasts to be even more pronounced for 2010 as the recent developments in relation to the financial crisis have exacerbated the downside risks. In December the CPB Netherlands Bureau for Economic Policy Analysis will present its new forecasts.

Aside from these differences, both the EC and the Dutch Cabinet forecast a moderation of economic growth in 2009. The table below compares the two forecasts.

Table 2.6 Comparison with Autumn Forecasts

Variable	Source	2007	2008	2009	2010	2011
Economic growth	EC	3.5	2.3	0.4	0.9	NA
	NL/CPB	3.5	2.25	1.25	2	2
Private consumption	EC	2.1	2.0	0.6	0.8	NA
	NL/CPB	2.1	1.5	1	1.25	1.25
Gross fixed capital formation	EC	4.9	7.1	-2.7	-0.5	NA
	NL/CPB	4.9	4.5	-1.0	2	2
General government balance	EC	0.3	1.2	0.5	0.1	NA
	NL	0.33	1.2	1.2	0.8	1.1

Economic implications of major structural reforms

In the recent past, major structural reforms have improved both the growth capacity of the Dutch economy as well as the state of public finances. In line with the Lisbon agenda and the country specific recommendation that was given to the Netherlands in 2008, the key aim of labour market policy for this Cabinet is to increase labour participation in view of the ageing of the workforce. The government aims to achieve a labour participation (as defined by the CPB Netherlands Bureau for Economic Policy Analysis) of 80% in 2016 and has included measures for improving labour participation in the coalition agreement. This is in line with our country specific recommendation in the context of the Lisbon strategy, namely to take further measures to improve labour supply of women, older workers and disadvantaged groups with a view to raising overall hours worked in the economy

In addition, in order to get a more structured view of the issue, the Labour Market Participation Commission (Bakker Commission) was instituted in December 2007. Its main mission was to formulate proposals for increasing labour participation to 80%, as well as measures that will result in people working more hours and a better-functioning labour market. In its report *Towards a future that works* (*Naar een toekomst die werkt*) dated 16th of June 2008, the Commission argues that the future labour market will be very different from its current counterpart. Instead of a shortage of work, there will primarily be shortages of workers. That is why many people who are currently sidelined need to be brought into play. According to the Commission, society needs all the talented people, but high labour participation can only be achieved if everyone who can work and wants to work maintains and continues to develop his or her knowledge, skills and competencies.

At the end of June, the government presented its vision on the Labour Market Participation Commission's report to the Lower House of Parliament. The government concurs overall with the Commission's analysis and approach. It aims to achieve a welfare state that is financially sustainable, provides high-quality services, and stimulates people to develop their talent and potential to the fullest. In the 2009 Budget Memorandum, the government proposed a coherent package of measures to promote labour participation.

In particular, the Cabinet reduces the unemployment benefit premiums for employees to zero. The reasoning behind this policy action is that in conjunction with the relatively high rate of inflation and labour market shortages, the cooling economy threatens to lead to a price-wage spiral. In this situation, keeping inflation under control may help to prevent a price-wage spiral, for example, by mitigating the pay demands and achieving balance in purchasing power. Achieving responsible wage development, promote participation and systematically reinforce the economy in other ways will therefore continue to be crucial. This topic will be discussed with social partners. Also, The Cabinet has done its utmost to prevent deteriorations in purchasing power. In line with this aim, the Cabinet has decided not to introduce the planned VAT increase in order to limit inflation and the risk of a price-wage spiral, thereby also supporting purchasing power.

In addition to this general measure to increase labour participation, the Cabinet has taken measures that are specifically focused on those groups that lag behind in participation (women, older people, low-skilled workers, immigrants). An overview of the most important measures is presented below.

Timeline	Policy response
	General
2009	Reduce Unemployment Fund (WW) premium for employees to 0%
	Women
2008	Increase supplementary combination tax credit (ACK)
2008	Establish Part-time Plus Task Force
2009	Convert supplementary combination tax credit into income-based supplementary combination tax credit (IACK)
2009	Phase out transferability of general tax credit over 15-year period
	Older workers
2009	Convert premium exemption into a targeted temporary premium discount for hiring older unemployed workers
2009	Introduce bonus for continuing to work after reaching the age of 62
	Vulnerable groups
2008	Implement employment scheme to facilitate the creation of jobs for those receiving benefits under the Work and Social Assistance Act (‘participation jobs’)
2008	Conclude agreements with the 39 regions of the Regional Registration and Coordination Centres (RMCs) to address school drop-out
2008	Introduce a stricter definition of ‘appropriate work’ in the Unemployment Insurance Act (WW)

2009	Introduce earned income tax credit
2009	Introduce temporary wage cost subsidy for long-term unemployed under the age of 50 (STAP)
2009	Introduce integrated services at the regional Locations for Work and Income
2009	Introduce budget for municipalities to promote labour market participation
2009	Introduce a study-work requirement for people under 27 who are entitled to receive social assistance benefits
2009	Adjust income benefits for young disabled persons under the Invalidity Insurance (Young Disabled Persons) Act (Wajong)

Another significant policy action from an economic perspective foreseen for this Cabinet's term in office is the reduction of red tape by 25%. The Cabinet wants to achieve a perceptible reduction in the burden of regulation for businesses and, elaborating on the recommendations of the OECD, the World Bank and the Stevens Commission, chooses for an integral problem-driven approach (in which the perceptions of the entrepreneur take precedence), linked to verifiable targets. The broader and deeper approach to addressing regulatory burden is intended to lead to a new net reduction in administrative burden by 25%[6], a reduction in regulatory burden caused by supervision (an average 25% reduction per selected domain), compliance costs (reduction targets linked to 30 selected laws that pose burdens), licensing and subsidies. The Cabinet also wants to improve the services and information provided to entrepreneurs. In addition, the Cabinet aims to reduce the pressure from legislation imposed by other governments and by Europe ('Better Regulation', and more specifically the EU action programme for reducing administrative burden by 25%). In addition, assessment of ex ante proposed policy will be strengthened by introducing a comprehensive system for impact evaluation, with the key parameters for regulatory burden.

The policy measures described so far are consistent with their coverage in the latest National Reform Programme of the Netherlands.

[6] The total administrative burden for business as at 1 March 2007 amounts to over €9.3 billion (1.7% of GDP). This is comparable to countries such as Austria and the UK.

Chapter 3 General government balance and debt

Policy strategy

The coalition government started its 4-year term in February 2007. In line with its Coalition Agreement it has been investing in education, sustainability and social cohesion, combat inflation, sustaining purchasing power, stimulating labour participation and innovation.

The Budget Memorandum 2009 of September 2008 (the draft budget 2009) further elaborated on the fiscal policy and rules for the years 2008-2011. It is envisaged that budget surpluses will occur from 2008 till 2011. The Cabinet aims for a structural budget surplus of 1 percent of GDP in 2011, this is above the medium-term objective (MTO). This enables the Cabinet to further reduce the government debt, which means less interest costs in the future. In this way sound public finance is achieved and a contribution is made to alleviate the increasing costs of ageing.

Once again, it is unavoidable to explicitly mention that the presented forecasts are somewhat outdated by recent developments in relation to the financial crisis. Specifically, in reaction to the financial crisis the Dutch government undertook several transactions in the financial markets. An overview of these transactions, complemented by an explanation of their budgetary consequences, is provided at the end of this chapter. The numbers presented below should be put against that perspective.

Medium-term objective and structural budget balances

The government its budgetary rules are based on the current MTO, which is a structural deficit ranging from 0.5 to 1% of GDP. At the same time it is recognised 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 largely depend on the results on the revenue side of the budget, since the automatic stabilisers are allowed to work freely in the Dutch budgetary system.

For 2008 a structural surplus of 0.9% GDP is expected. The goal of a structural surplus of 1% GDP in 2011 will be achieved according to Budget Memorandum 2009 and also in the years before a surplus close to 1% GDP is expected.

Table 3.1 Structural balances, budget memorandum 2009

% GDP	2008	2009	2010	2011
General government balance	1.2	1.2	0.8	1.1
- Cyclical component	-0.3	-0.1	0.1	0.1
- One-off and temp measures	0.0	0.3	0.0	0.0
Structural balance	0.9	1.1	0.9	1.2

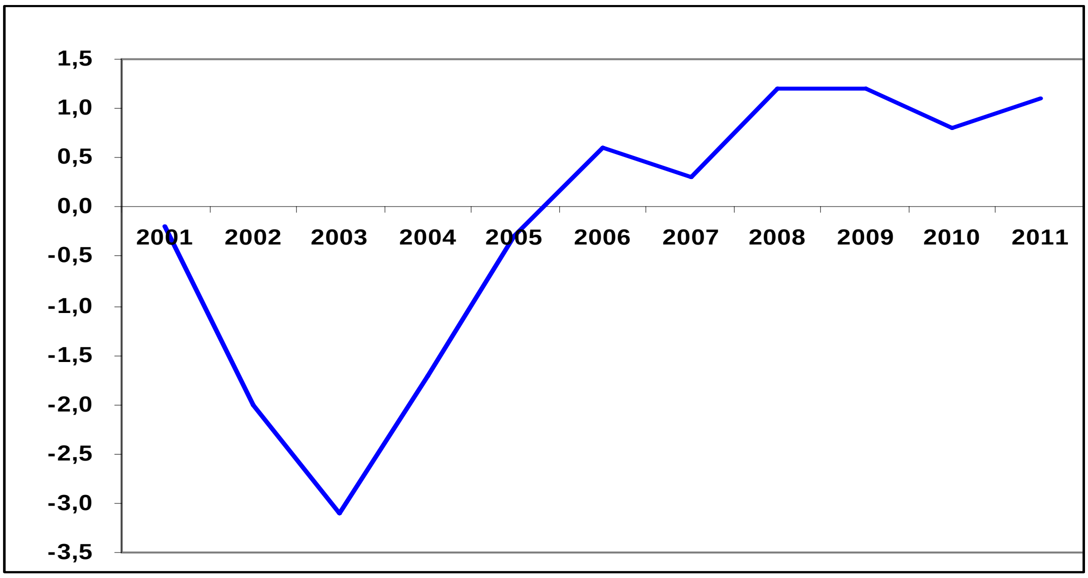
Nominal budget balance

According to the Budget Memorandum 2009 presented in September 2008, the general government is expected to have a budget surplus of 1.2% of GDP in 2008 and again 1.2% GDP in 2009. These are improvements of 0.7% of GDP and 0.6% of GDP respectively compared to last years Budget Memorandum. This is partly due to expected high gas revenues, since the gas price is linked to the oil price. According to the budget policy these revenues are not being used for extra expenditures, but flow directly into the budget balance. Even taking the economic slowdown into account, it might well be feasible to have a structural budget surplus of 1% GDP in 2011. Furthermore, unemployment is still low. Although economic prospects for 2009 are uncertain, The Netherlands are at a good point of departure to face challenges in the nearby future.

The recently published Autumn Report (Najaarsnota) projects a surplus for 2008 of 1.1% of GDP, a slight downward adjustment of the projection by 0.1% of GDP compared to the Budget Memorandum 2009 that was published in September.

Figure 3.1 Actual budget balance and outlook for the coming years

Actual balance and expected balance (2008 and further) according to Budget Memorandum 2009



Debt levels and developments

The government debt was due to continue its downward trend according to the Budget Memorandum 2009. This is the result of the positive budget balance for 2009 and the years before, as well as GDP growth. For 2011 the debt was expected to be 36.2% GDP, the lowest figure (as % GDP) since the start of the Dutch Kingdom in 1813. Recent developments show a considerable upward adjustment of government debt of 15% GDP, mainly due to the financial crisis: up from 42% GDP to 57% GDP (see box 3.1 on page 19). However, the net worth of the central government does not change due the financial crisis because the additional debt is matched by additional financial assets.

Table 3.2 General government debt developments

	2007	2008	2009	2010	2011
1. Gross debt	45.7	42.1	39.6	38,0	36.2
2. Change in gross debt ratio	-1.7	-3.6	-2.5	-1.6	-1.8
Contributions to changes in gross debt					
3. Primary balance (minus sign = surplus)	2.6	3.4	3.3	2.9	3.1
4. Interest expenditure	2.2	2.2	2.1	2.1	2.0
5. Stock-flow adjustment	2.5	1.4	1.3	0.8	0.7
(Of which denominator effect)	(2.2)	(1.9)	(1.9)	(1.1)	(1.0)

Interest expenditure is 2.1% GDP for 2009 and 2010 and decreases slightly to 2.0% of GDP for 2011. Stock-flow adjustment (including denominator effect) will decrease from 1.4% of GDP in 2008 to 0.7% of GDP in 2011. In case of The Netherlands the most important explanation of the stock flow adjustment is the denominator effect due to the nominal GDP development. Another important explanation can be found in the so-called financial transactions. Financial transactions are treated as irrelevant for the calculation of the government balance, but are relevant for the government debt (e.g. study loans).

Box 3.1 ***Recent government interventions in the financial markets and their budgetary consequences***

Recently, the Dutch government undertook several transactions in order to keep the financial markets healthy and stable. These transactions influence the budget balance, the gross debt ratio or both. This box will give a brief overview of the transactions and their consequences on the gross debt ratio and budget balance. In general terms there are three types of transactions. First, there are direct financial transactions, for instance the nationalisation of Fortis. These transactions are not relevant for the budget balance, but are relevant for the gross debt ratio. Second there are interest payments and dividends arising from the financial transactions. These are relevant for both the budget balance and the gross debt ratio. Finally the government agreed on guarantee schemes, for instance the deposit guarantee scheme, to ensure a stable financial system. Possible payments arising from these guarantees will be relevant for the budget balance and gross debt ratio.

Specifically, the following financial transactions related to the financial crisis occurred in the months of October and November 2008. A financial transaction of 16.8 billion euro / 2.8% GDP occurred due to the nationalisation of Fortis Bank. The subsequent refinancing by the State of the short term bridging loans of Fortis amounted up to 50 billion euro / 8.4% GDP. Furthermore, the capital position of two banks (ING and SNS Reaal) and one insurance company (Aegon) have been strengthened by the state. In return the state received securities. The amounts involved are as follows: ING 10 billion euro / 1.7% GDP, Aegon 3 billion euro / 0.5% GDP and SNS Reaal 0,75 billion euro / 0,1% GDP. Furthermore, The Netherlands will prefinance the obligations of the Icelandic deposit guarantee system to deposit account holders of The Netherlands. Exact amounts are not yet determined.

As of 23 October 2008 banks can make use of the 200 billion euro Credit Guarantee Scheme for the issuance of medium term debt instruments by banks.

As a result of the financial crisis the government debt 2008 has been adjusted upward by 13.5% GDP. The actual forecast of the 2008 government debt in the Autumn Forecast shows a debt of approximately 57% GDP. It is important to notice that measured in net terms the net debt / net worth of the central government did not change because the additional debt is matched by additional financial assets.

Chapter 4 Sensitivity analysis and comparison with previous update

Comparison with previous update

In the Council Opinion on the Dutch Stability Programme (update November 2007) the Netherlands was invited to improve long-term sustainability of public finances by securing budgetary consolidation as planned in the programme. Furthermore, in the Eurogroup orientations for the Mid Term Budgetary Review the Netherlands was invited to ensure the achievement of the budgetary targets for 2008, notably to adhering strictly to the multi-annual expenditure ceilings and by channelling the expected windfalls from gas receipts to better budgetary outcomes. For 2009, the Netherlands should maintain a strong structural position by resisting pressures to spend further windfall gas receipts. The Budget Memorandum 2009 is in line with the invitation and orientations and with the general orientations for fiscal policies in euro area member states. For 2007 economic growth figures are slightly better than expected. For 2008 there is no difference and 2009 shows a small decline in comparison with the previous update. This decline is a result of the changed economic outlook. The recent developments on financial markets (and the related financial transactions mentioned in the box in chapter 3) are however not part of this outlook. The government debt development and the net lending development is fairly better for 2007 until 2010 when compared to the previous update. The debt is projected to decrease by 2.9% of GDP in 2008, 3.4% of GDP in 2009 and 3.2 % of GDP for 2010. The government surplus is expected to be 1.2% GDP in 2008 and 2009 and 0.8% GDP in 2010. This is mainly the result of higher revenues from taxes and social premiums and higher gas revenues.

Table 4.1 Divergence from previous update

	ESA Code	2007	2008	2009	2010	2011
Real GDP growth (%)						
Previous update		2.75	2 .5	1.75	1.75	NA
Current update		3.5	2.25	1.25	1.75	1.75
Difference		0.75	-0.25	-0.5	0	NA
General government net lending (% of GDP)	EDP B.9					
Previous update		-0.4	0.5	0.6	0.7	NA
Current update		0.3	1.2	1.2	0.8	1.1
Difference		0.7	0.7	0.6	0.1	NA
General government gross debt (% of GDP)						
Previous update		46.8	45.0	43.0	41.2	NA
Current update		45.7	42.1	39.6	38	36.2
Difference		-1.1	-2.9	-3.4	-3.2	NA

Alternative scenarios and risks including sensitivity of budgetary projections

The current exceptionally great uncertainty surrounding future prospects makes it difficult to present a detailed assessment. This is already the case for 2009, and even more for 2010 and 2011. It is a very hazardous task to attempt to quantify effects for these outer years within an acceptable confidence interval. Nonetheless, in order to give an idea of possible effects for the years 2010 and 2011, a limited quantitative and a more elaborate qualitative judgement will be provided for the years 2010 and 2011.

The sensitivity analysis is based upon three different scenarios; 1) a fall in the oil price combined with a depreciation of the euro vis à vis the dollar 2) a fall in the Dutch stock market index and 3) a contraction in global demand.

Scenario 1: a lower oil price in combination with a depreciation of the euro vis à vis the dollar

The figures in this Stability programme are based on an oil price of $ 125 per barrel of Brent oil and a euro to dollar exchange rate of 1.57 in 2009. Recently oil prices have gone down and the euro has depreciated vis à vis the dollar. Since the gas price is linked to the oil price, a falling oil price in euro's will lead to lower gas revenues. This paragraph outlines the main macro economic effects for 2009 of an oil price decrease to $90 per barrel of Brent oil and a euro to dollar exchange rate of 1.37 (table 4.2). These values are roughly in line with the Commission's own external assumptions.

In general, a lower oil price in euro's will have a dampening impact on inflation. This will stimulate both private consumption and corporate investment. A depreciation of the euro vis à vis the dollar improves the price competitiveness of Dutch exports. This leads to an increase in export activity. These developments have a positive impact on employment, as increased demand and profitability increase economic activity and thereby the demand for labour. All in all, these effects lead to an upward stimulus in GDP growth.

In terms of government finances, a depreciation of the euro and a lower oil price will lead to lower gas revenues, but higher tax income. The latter is primarily the result of higher income tax and VAT revenues. At the same time, government spending will decrease as a result of lower inflation (inherent to our budgetary rules with real expenditure ceilings). The combined effects of these factors lead to a rise of 0.1% GDP of the budget balance in 2009 with respect to the baseline scenario.

Table 4.2 Effects of a USD 35 fall in the oil price in combination with a euro-dollar exchange rate of 1.37 (in percentage points)

Comparison with baseline scenario

	2009
Gross Domestic Product (GDP)	+0.5
Private consumption	+1.1
Corporate investment	+3.5
Goods exports (excluding energy)	+0.2
Employment	+0.7
Consumer price index (CPI)	-0.8
Wage rate market sector	+0.4
General government balance (% of GDP)	+0.1
Government debt ratio (% of GDP)	-0.2

Source: Ministry of Finance's own calculations, based upon CPB, "Macro Economische Verkenning 2009", September 2008.

Scenario 2: a 4% fall in relevant world trade

The Netherlands is characterised by having an 'open economy', and as such, heavily relies on trade as a source for its economic growth. In the baseline scenario, relevant world trade is forecast to grow by 3 ¾%. As a result of the global impact of the financial crisis, it is likely that global demand will weaken. This implies a deterioration in the growth of relevant world trade. In order to simulate what the effects of such a development could be, this scenario will show what the macroeconomic effects could be if relevant world trade would turn out to be 4 percentage points lower than in the baseline scenario. This comes down to a stagnation, as relevant world trade would then contract by ¼%.

Stagnation in relevant world trade has substantial effects. Most obviously, exports of goods would contract heavily. As this immediately affects profitability ratios, corporate investments suffer. Higher unemployment lowers the wage rate of the market sector. In addition, reduced economic activity leads to lower employment. The overall effect on GDP is considerable, as it is projected to deteriorate by 1.1%, resulting in a growth rate of close to zero in this scenario.

As far as the state of public finances is concerned, the developments sketched above will result in lower tax revenues. Especially proceeds from taxes and premiums on wages and the collected VAT (through lower private consumption) will diminish. In contrast, gas revenues are not immediately affected, and the same largely goes for government expenditures (as the inflationary effect is modest). The composed effect of these effects would lead to a deterioration of 0.2 percentage points of the budget balance with respect to the baseline scenario. Government debt would increase by 0.4 percentage points.

Table 4.3 Effects of a 4% fall in relevant world trade (in percentage points)

Comparison with baseline scenario

	2009
Gross Domestic Product (GDP)	-1.1
Private consumption	-0.4
Corporate investment	-2.4
Goods exports (excluding energy)	-2.9
Employment	-0.3
Consumer price index (CPI)	-0.2
Wage rate market sector	-0.7
General government balance (% of GDP)	-0.2
Government debt ratio (% of GDP)	+0.4

Source: Ministry of Finance's own calculations, based upon CPB, "Macro Economische Verkenning 2009", September 2008.

Scenario 3: a 40% fall in the stock market indices

In the baseline scenario the Dutch stock market index, the AEX, is assumed to show an average value of 420 points. The recent intensification of the financial crisis has led to a considerable fall in the index, which currently (mid November) fluctuates around a value of 250 points, a fall of 40% compared to the value in the baseline scenario. In line with this development, this paragraph outlines the main macro economic effects in 2009 of a 40% fall in the AEX stock market index (table 4.4)).

Each index point is estimated to represent a stock market value of approximately €1 billion. This entails that a fall of 170 points on the AEX index represents a wealth loss of €170 billion. This loss is primarily borne by Dutch citizens, as they represent the biggest portion of investors. The main economic channel through which this development will affect economic growth is lower private consumption through a lower disposable income. This results in a downward revision of 0.2 percentage points.

As far as public finances are concerned, the affected variable is tax revenue. Lower private consumption results in less revenues of VAT. Gas revenues and expenditures are largely unaffected (as inflation is unchanged). This results in a deterioration of the budget balance by 0.1 percentage points in 2009.

Table 4.4 Effects of a 40% fall in stock market indices (in percentage points)

Comparison with baseline scenario

	2009
Gross Domestic Product (GDP)	-0.2
Private consumption	-0.7
Corporate investment	-0.2
Goods exports (excluding energy)	+0.1
Employment	0
Consumer price index (CPI)	0
Wage rate market sector	-0.1
General government balance (% of GDP)	-0.1
Government debt ratio (% of GDP)	+0.2

Source: Ministry of Finance's own calculations, based upon CPB, "Macro Economische Verkenning 2009", September 2008.

Comparing these scenarios for 2009 to recent developments, we can conclude that in fact all three scenarios seem to occur simultaneously as downside risks are materialising. The past months we have seen a fall in the oil price, a depreciation of the euro vis à vis the dollar, a fall in stock market indices and a contraction in global demand, resulting in lessened trade (prospects).

When one would combine the effects of the three scenarios, the result is a significant deterioration in growth prospects, resulting in a downward revision of 0.75 percentage points for 2009 in comparison with the baseline scenario, which comes down to a GDP growth of roughly 0.5%. Also the budget balance would deteriorate by 0.2 percentage points. Government debt would then increase by 0.3 percentage points.

Possible implications for 2010 and 2011

If one were to assume that the economic crisis would persist for a longer period and economic growth would not pick up in both 2010 and 2011, the budget balance would deteriorate further. Since the Dutch Cabinet is committed to a continuation of trend based budgetary policy, expenses would continue as planned in 2010 and 2011. The budget balance would therefore primarily deteriorate as a result of declining revenues, due to the negative impact on consumption and employment. This is fully in line with a free working of the automatic stabilisers.

As an illustration, assume that economic growth in 2010 and 2011 would also amount to 0.5%, 1.5 percentage points short of the 2% growth in the baseline scenario. In that case, the budget balance would approximately fall by another 1.5 percentage points (approximately 50% of the extra output gap of 3%, using the average budgetary elasticity of around 0.55). This would result in a budget balance of –1/2 % GDP in 2011. The structural balance 2011 in this scenario would show a positive sign. The current MTO of a structural deficit ranging from 0.5 to 1% of GDP should therefore be adhered to.

As the Netherlands has shown budget surpluses over the past years, automatic stabilisers should have the necessary room to act freely. Thereby, it must be noted that the deterioration in 2009 that stems from a decline in gas revenues is already accounted for in 2010 and 2011, as the projected oil price in those years is conservatively low (see chapter 2). The expected deterioration of the budget balance in those years is thus expected to be less severe. In conclusion, although a deterioration of the budget balance is highly likely given the current prospects, with the current knowledge there is no reason to assume that this will result in a breach of the arrangements made in the Stability and Growth Pact.

Chapter 5 Quality of public finances

Policy strategy

As established by the Working Group on the quality of public finances, there is an undeniable link between the quality of public finances policies and economic growth. The link between the two variables, is, however, not straightforward, and in fact comprises multiple dimensions. The Working Group has identified two main layers, each consisting out of several components. More specifically, Layer 1 describes public finance processes and comprises the composition, efficiency and effectiveness of expenditure, the structure and efficiency of revenue systems, and fiscal governance. Layer 2 describes public finance outcomes and is composed of two components: the level of expenditure and revenues and fiscal position and sustainability. Furthermore, it must be noted that the Working Group acknowledges that public finances policies cannot be properly analysed without considering the influence represented by environmental factors and in particular the effect of public policies impacting on market functioning and business environment.

The Working Group is currently developing a comprehensive and workable framework, mainly through the development of indicators for each component that allow for a quantitative international comparison amongst the different subcategories of the quality of public finances. This is, however, still work in progress and therefore not presented here. The Cabinet endorses the importance of the Working Group's analysis, as it would very much welcome a workable framework for analysing the quality of public finances. However, given the current lack of such a framework, what will follow is an account of developments on both the expenditure and revenue side, thereby touching upon several components Layer 1 and Layer 2. Fiscal position and sustainability will be covered extensively in chapter 6, whilst fiscal governance will be dealt with in greater detail in chapter 7.

Economic growth, sustainability and solidarity are the key elements of this Cabinet's policy. When the Cabinet came into office, it stated the ambition to realise a total of 74 intermediary and final targets during its term. These specific targets improve the accountability of government policy. To reinforce sustainable growth, the Cabinet has identified six pillars within public expenditure. In 2009, increases in expenditures amount to €2.5 billion of which a significant amount will go to education. Spending on education increases by 1.5% 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.

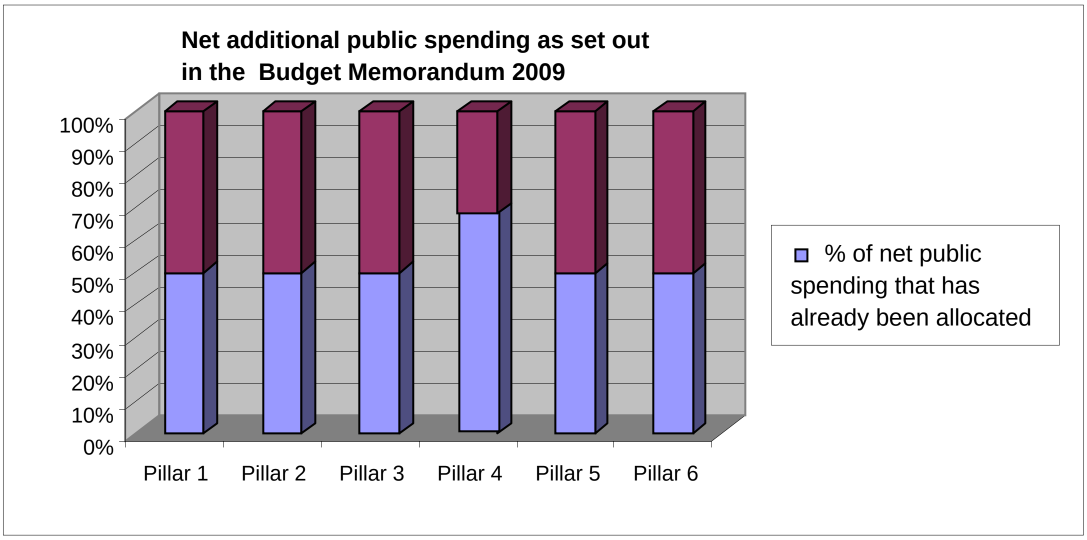
Developments on the expenditure side

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 "A more service-oriented and more efficient government" (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. 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

The Cabinet is on schedule with the implementation of the investments in public services as stated in the Coalition Agreement. In 2009, something over 60 percent of the available means is allocated to the budgets of the ministries (for more details: graph PM). Means for investments in pillar IV 'participation and social cohesion', are – in line with the Coalition Agreement – already for almost 70% allocated to the budgets of the ministries. Pillar IV contains, amongst others, investments in health care, social cohesion and child care.



Pillar II aims at enhancing the economic structure through various measures to boost competitiveness and innovation. 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.

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 2009, 2,8 billion euro will be spent on Child Care. This is an increase of 700 million euro since 2007. In the paragraph discussing the economic and budgetary effects of major structural reforms, the measures taken are described in more detail.

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. On the other hand, it also includes an expenditure cutback. Government policy will be more efficiently implemented 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 budget 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

	2008	2011	2009-2011
	% 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 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. In addition, the government aims to reduce the pressure from legislation imposed by other governments and by Europe ('Better Regulation', and more specifically the EU action programme for reducing administrative burden by 25%). Thereby, assessment of ex ante proposed policy will be strengthened by introducing a comprehensive system for impact evaluation, with the key parameters for regulatory burden.

Following an earlier net reduction in the administrative burden of 20%, the Cabinet announced in its policy programme that there would be a perceptible reduction in the administrative burden for businesses. More specifically, there will be a new net reduction in the administrative burden by 25%, a reduction in regulatory burden as a result of supervision (an average 25% reduction per selected domain), compliance costs (reduction targets linked to 30 selected laws that pose burdens), licensing and subsidies. The Cabinet wants to achieve a perceptible reduction in the burden of regulation for businesses and, following from the recommendations as suggested by the OECD, the World Bank and the Stevens Commission, chooses for an integral problem-driven approach (in which the perceptions of the entrepreneur take precedence), linked to verifiable targets. This enables the Cabinet to assess whether there actually is a noticeable reduction in the regulatory burden for businesses.

Developments on the revenue side

The cabinet has appointed a number of priorities in policy areas with direct implications for the revenue side. These priorities are greening, encouraging labour participation, encouraging innovative entrepreneurship, 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. The most significant step has been taken in 2008 when a number of new green taxes have been implemented and pollution was taxed heavier. The Cabinet plans to institute further tax greening measures in 2009. The details were set out in a letter sent to the Lower House of Parliament in May 2008. The primary measures to be taken will be in relation to vehicle taxes, specifically car and motorcycle tax (BPM) and motor vehicle tax (MRB), aimed at further environmental differentiation. BPM will become a levy based on catalogue price with a tax on emissions. The factors that play a defining role in decisions about tax greening measures include purchasing power development, international competitiveness, and the market price development of energy products.

Encouraging labour participation is a key objective of this government. The EU Spring Council has recommended that the Netherlands should take further steps to improve labour participation among women, older workers and disadvantaged groups in order to increase the total number of hours worked in the economy. In addition, the Labour Market Participation Commission (Bakker Commission) was instituted in December 2007 to formulate proposals for increasing labour participation to 80%, as well as measures that will result in people working more hours and a better-functioning labour market. This culminated in the report "*Towards a future that works* (*Naar een toekomst die werkt*)" dated 16 June 2008. At the end of June, the government presented its vision on the Labour Market Participation Commission's report to the Lower House of Parliament.

In the 2009 Budget Memorandum, the Cabinet proposed a coherent package of measures to promote labour participation, greatly inspired by the analysis by the Labour Market Participation Commission. In particular, to stimulate employment in general, the Cabinet reduces the unemployment benefit premiums for employees to zero, thereby making work pay (more). As far as the 'low employment groups', a key aspect of the approach to improve participation among women, older workers and vulnerable groups is stronger financial incentives in the fiscal arena to make it financially more attractive to work, and to work longer.

To encourage people with a small part-time job to work more hours, an income-based combination tax credit (IACK) will be introduced and intensified in 2009, for a total of € 0,5 billion. This will serve as an incentive to increase employment. Starting on 1 January 2009, the transferability of the general tax credit will be phased out over a 15-year period, making it financially more attractive for non-working partners (usually women) to accept work.

In order to increase labour participation among older workers, the government wants to encourage people to continue working until they reach the age of 65 and eliminate as many obstacles to working after 65 as possible. To this end, a bonus for continuing to work after 62 years will be introduced as an incentive for working longer. Employers who hire unemployed people aged 50 years or older or who have employees 62 or older will also be eligible for a significant discount on social insurance premiums.

Lastly, the government will be instituting a range of measures to increase labour participation among vulnerable groups. The introduction of an earned income tax credit on 1 January 2009 will make it more cost-effective to work, especially for semi- and unskilled workers (0,2 billion). The income schemes for young disabled persons (Wajong) will be modified to focus more on finding and maintaining gainful employment. In the implementation of the reintegration process, regional Locations for Work and Income will provide integrated services. This gives employers a single point of contact for the region. For youngsters under 27 who are eligible for social assistance benefits a study-work requirement will be introduced. The aim is to introduce this on 1 July 2009.

The Research and Development (Promotion) Act (WBSO) will be intensified in phases, increasing from €39 million in 2009 to €115 million in 2011. Most measures with respect to innovative entrepreneurship are taken on the expenditure side (pillar II).

Finally, a solid business climate ensures economic growth and dynamic development. Good preconditions for entrepreneurship contribute to innovation and productivity. To this end, the government will further simplify the procedures for starting a business. A result of this is that it is currently already possible to start a business within one week. One measure to be taken in this context is the abolishment of the required minimum capital. The Cabinet is introducing two key measures to bring the instruments for starters and SMEs more in line with their situation: a one-stop shop for hiring the first employee (employers need only contact the tax authorities) and expansion of the services of the Answers for Businesses (Antwoord voor Bedrijven) initiative (the former online business information service counter). These measures meet the goals set during the 2006 EU Spring Council to improve the business climate. Finally, the Cabinet wants to achieve a perceptible reduction in the burden of regulation for businesses and has taken measures to achieve this (see chapter 2 for more detailed information).

Chapter 6 Sustainability of public finances

Policy strategy

The Dutch Cabinet is keen to meet the challenges of an ageing population. Sustainable public finances are part of the broader concern for responsible intergenerational policymaking. 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 Netherlands Bureau for Economic Policy Analysis' and the EPC/European Commission's latest study on the effects of ageing, public finances are not yet sustainable[7]. An important difference between the two studies relate to the calculation of tax revenues. In the CPB Netherlands Bureau for Economic Policy Analysis' 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.

In 2006, the sustainability gap was calculated to be around 1.5% of GDP in 2011 by the CPB Netherlands Bureau for Economic Policy Analysis [8]. At the beginning of 2007, revised life expectancy projections caused this sustainability gap to rise to 2.5% GDP[9]. 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.

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[7] 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.*

[8] Centraal Plan Bureau, Economische Verkenning 2008-2011, September 2006

[9] Centraal Plan Bureau, Indicatie van effecten Financieel kader 2008-2011, February 2007

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 table 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 sustainability

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. In the baseline scenario, 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 Netherlands Bureau for Economic Policy Analysis, the natural gas stock will decrease by 7% of GDP between 2007 and 2011[11]. As a result of the lower public debt, interest

[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

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, 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 through increased participation 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 wealth and the environment. Decreasing income taxes will have a positive effect on participation across the board (4) the introduction of the 'doorwerkbonus', elderly employees receive a bonus in taxation to encourage participation as of the year in which they turn 62.

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, as of 2011 people aged 65 or over and born after 1945 will provide a 'sustainability contribution'. This is implemented by means of a limited indexation of the second tax bracket, which ends in 2009 at € 32.127.

To curb expenditures on health care, the deductibility of health expenditures is reduced. 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 percentage points.

Chapter 7 Institutional features of public finances

Fiscal rules of the Cabinet

Set of fiscal rules

As mentioned before, the central goal of the budgetary policy of the 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 the 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 (see box below for extra information on this issue). 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

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[12] For an excellent overview of Dutch policy making since the early 19tth 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

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 included in the set of fiscal rules. 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.

Box 7.1 *Net expenditure ceilings*

Since 1994 a so-called trend-based budget policy is use in the Netherlands. The key characteristics are the use of realistic economic premises, a strict separation of revenues and expenditures, a fixed, multi-annual expenditure framework and one-decision-making moment about the budget. The multi-annual expenditure framework consists of expenditure ceilings for the duration of the Cabinet period.

The expenditure framework provides expenditure ‘ceilings’ within which expenditure – and thus policy – must remain. The expenditure framework is calculated in real terms. Every year the framework is adjusted by the latest index for the development of prices and wages, resulting in a nominal expenditure ‘ceiling’. The framework is divided into three sectors: (1) expenditures of the ministries, (2) social security expenditure and (3) health care spending. One specific feature of the expenditure ceilings is that these ceilings are set in terms of net expenditure: so-called non-tax revenues are included in the expenditure ceiling and thus not included under the revenue side of the budget. The non-tax revenues are included under the expenditure ceiling because of their non-cyclical character. Furthermore, it creates an incentive to the different departments to collect non-tax revenues. Important non-tax-revenues are dividends from the central bank and state corporations, interest revenues and various fines. The extent of the non-tax revenue is rather limited.

It should be stressed that the gas revenues are not included as non-tax-revenues under the expenditure ceilings. The gas revenues are just as taxes and social premiums excluded from the expenditure ceilings. Windfalls and setbacks in gas revenues have – due to the strict separation of expenditures and revenue – a direct effect on the government debt. Automatic stabilizers fully operate at the revenue side of the budget.

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 materialise 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. Moreover, this would not create a transparent forecast.

Box 7.2 ***New fiscal rule for the effect of the financial crisis***

In reaction to the financial crisis the Dutch government undertook several transactions in the financial markets. However the Dutch fiscal rules did not foresee these exceptional circumstances. It is not in the spirit of the fiscal rules that these transactions influence the expenditure ceiling (see box in chapter 3 for extra details). For this reason the set of fiscal rules has been updated by the Cabinet in November 2008 with specific rules for the treatment of expenditures.

The new fiscal rule entails the fact that all costs and revenues resulting from the interventions in the financial sector with the aim of ensuring a stable financial system are not part of the expenditure ceiling. Otherwise it would have been possible that measures due to the financial crises would have created spending room under the expenditure ceilings: as interest expenditure is according to the Dutch fiscal rules are excluded from the expenditure ceilings, while dividend receipts are included. This possible additional room for expenditure is now foreclosed. Also, premiums and possible compensation payments resulting from the guarantee of bank loans and the deposit guarantee scheme, are not part of the expenditure ceiling. If as a consequence of these above mentioned guarantee schemes the signal value is reached, no additional measures will be taken. Of course the signal value will still be applied during the regular budgetary process.

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 Netherlands Bureau for Economic Policy Analysis, 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 Netherlands Bureau for Economic Policy Analysis, which also has an independent statute. In Autumn 2007, the IMF 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 Netherlands Bureau for Economic Policy Analysis' unique role in the policy making process owing to its technical reputation and its independence. The CPB Netherlands Bureau for Economic Policy Analysis 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 Netherlands Bureau for Economic Policy Analysis performs cost-benefit calculations of public investment projects. The IMF concluded: "The CPB Netherlands Bureau for Economic Policy Analysis appears to span the full spectrum of activities identified in the recent IMF's analysis of independent Fiscal Councils."

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[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.1 Macroeconomic prospects

	ESA Code	2007	2007	2008	2009	2010	2011
		Level (bln €)	rate of change	rate of change	rate of change	rate of change	rate of change
Real GDP	B1*g	567.1	3.5	2 ¼	1 ¼	2	2
Nominal GDP	B1*g	567.1	5	4 ¼	4 ½	3 ¾	3 ¾
Components of real GDP							
Private consumption expenditure	P.3	264.3	2.1	1 ½	1	1 ¼	1 ¼
Government consumption expenditure	P.3	142.5	3.0	1 ¼	2	1 ½	1 ½
Gross fixed capital formation	P.51	113.2	4.9	4 ½	-1	2	2
Changes in inventories (Δ)	P.52 + P.53	- 1.6	-0.2	0.0	0.2	0	0
Exports of goods and services	P.6	424.8	6 ½	3 ¾	2 ¾	5 ¾	5 ¾
Imports of goods and services	P.7	376.1	5.7	3 ¾	2 ½	5 ½	5 ½
Contributions to real GDP growth							
Final domestic demand		520.0	2.7	1.9	0.8	1 ¼	1 ¼
Changes in inventories (Δ)	P.52+ P.53	-1.6	-0.2	0.1	0.0	0	0
External balance of goods and services	B.11	48.7	1	0.3	½	½	½

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	2007 level	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change	2011 rate of change
GDP deflator		100	1.5	2 ¼	3 ½	1 ¾	1 ¾
Private consumption deflator		100	1.6	3	3 ¼	1 ¾	1 ¾
HICP		100	1.6	2 ½	3 ¼	2	2
Public consumption deflator		100	2.1	2 ½	4 ½	3	3
Investment deflator		100	1.4	1 ¾	2 ½	1	1
Export price deflator		100	1.2	5 ¼	2 ½	-1	-1
Import price deflator		100	1.3	6	2 ¼	-1	-1

Table A.1c Labour market developments

	ESA Code	2007 level	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change	2011 rate of change
Employment (x thousand persons)		8613	2.5	2	½	½	½
Employment (bln hours worked)		12.0	2.3	1¾	¼	½	½
Unemployment rate (% of labour force)		4.5	4.5	4	4 ¼	3	3
Labour productivity (persons)		65.8	1.0	¼	¾	1 ¼	1 ¼
Labour productivity, hours worked		9.8	1.1	½	1	1 ½	1 ½
Compensation of employees	D.1	279.7	3.4	4 ¼	4	4 ¼	4 ¼
Compensation per employee		47.3	3.2	4 ¼	4	3 ½	3 ½

Table A.1d Sectoral balances

% of GDP	ESA Code	2007	2008	2009	2010	2011
Net lending/borrowing vis-à-vis the rest of the world	B.9	9.5	8.5	9.5	7.5	8.0
Of which						
- Balance on goods and services		8.6	8.4	8.8	7.5	7.8
- Balance of primary incomes and transfers		2.7	1.7	1.8	1.2	1.3
- Capital account		-1.5	-1.5	-1.0	-1.2	-1.2
Net lending/borrowing of the private sector		9.2	7.2	8.2	6.8	6.9
Net lending/borrowing of general government		0.3	1.2	1.2	0.8	1.1
Statistical discrepancy*		0.0	0.0	0.0	0.0	0.0

** Figures may not add up to totals due to rounding.*

Table A.2 General government budgetary prospects

	ESA Code	2007	2007	2008	2009	2010	2011
		level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1.General government	S.13	1973	0.3	1.2	1.2	0.8	1.1
2. Central government	S.1311	3465	0.6	1.2	1.5	0.8	0.8
3. State government	S.1312	M	M	M	M	M	M
4. Local government	S.1313	-40	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	-1452	-0.3	0.0	-0.3	0.0	0.3
6. Total revenue	TR	258772	45.6	46.6	46.3	46.1	46.3
7. Total expenditure	TE	256918	45.3	45.4	45.1	45.3	45.2
8. Net lending/borrowing	EDP B9	1973	0.3	1.2	1.2	0.8	1.1
9. Interest expenditure	EDP D.41	12525	2.2	2.2	2.1	2.1	2.0
10. Primary balance		14498	2.6	3.4	3.3	2.9	3.1
11. One-off and other temporary values		0	0.0	0.0	0.3	0.0	0.0
12. Total taxes (12=12a+12b+12c)		141067	24.9	25.6	25.6	25.5	25.2
12a. Taxes on production and imports	D.2	71213	12.6	12.7	12.7	12.7	12.6
12b. Current taxes on income, wealth etc.	D.5	67974	12.0	12.6	12.6	12.5	12.3
12c. Capital taxes	D.91	1880	0.3	0.3	0.3	0.3	0.3
13. Social contributions	D.61	81107	14.3	14.5	14.1	14.5	15.0
14. Property income	D.4	12648	2.2	2.6	2.5	2.3	2.2
15. Other revenues		23950	4.2	3.9	4.1	3.8	3.9
16.=6. Total revenue	TR	258772	45.6	46.6	46.3	46.1	46.3
PM: Tax burden (D.2+D.5+D.61+D.91-D995)		222174	39.2	40.1	39.7	40.0	40.2
17. Compensation of employees and intermediate consumption	D.1+P.2	92987	16.4	16.4	16.5	16.5	16.5
- 17a. Compensation of employees	D.1	51936	9.2	9.2	9.3	9.3	9.3

- 17b. Intermediate consumption	P.2	41051	7.2	7.2	7.2	7.2	7.2
18. Social payments (18=18a+18b)		113212	20.0	20.0	19.6	19.8	19.8
18a. Social transfers in kind supplied via market producers	D.6311. D63121. D63131	54428	9.6	9.6	9.4	9.5	9.5
18b. Social transfers other than in kind	D.62	58784	10.4	10.4	10.2	10.3	10.3
19.=9. Interest expenditure	EDP D.41	12525	2.2	2.2	2.1	2.1	2.0
21. Subsidies	D.3	7159	1.3	1.3	1.3	1.3	1.3
21. Gross fixed capital formation	P.51	18910	3.3	3.4	3.5	3.5	3.5
22. Other		12125	2.1	2.1	2.1	2.1	2.1
23.=7. Total expenditure	TE	256918	45.3	45.4	45.1	45.3	45.2
Government consumption (nominal)	P3	142481	25.1	24.9	25.1	25.4	25.7

Table A.3 General government expenditure by function

% of GDP	COFOG Code	2007	2008	2011
1 General public service	1	7.3	7.3	7.0
2 Defence	2	1.4	1.4	1.4
3 Public order safety	3	1.8	1.8	1.8
4 Economic affairs	4	4.7	4.7	4.7
5 Environmental protection	5	0.8	0.8	0.8
6 Housing and community amenities	6	1.0	0.9	0.9
7 Health	7	5.7	5.7	6.0
8 Recreation. culture and religion	8	1.4	1.3	1.3
9 Education	9	5.1	5.1	5.1
10 Social protection	10	16.4	16.3	16.2
11 Total expenditure	TE	45.6	45.3	45.2

Table A.4 General government debt developments

% of GDP		2007	2008	2009	2010	2011
1. Gross debt		45.7	42.1	39.6	38	36.2
2. Change in gross debt ratio		-1.7	-3.6	-2.5	-1.6	-1.8
Contributions to changes in gross debt						
3. Primary balance		2.6	3.4	3.3	2.9	3.1
4. Interest expenditure	EDP D.41	2.2	2.2	2.1	2.1	2.0
5. Stock-flow adjustment		2.5	1.4	1.3	0.8	0.7
Of which : - differences between cash and accruals		0.2	0.2	0.2	0.0	0.1
- Net accumulation of financial assets		1.1	-0.5	-0.1	0.1	-0.1
of which - privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effect and other		-2.2	-1.9	-1.9	-1.1	-1.0
PM: implicit interest rate		4.1	4.1	4.1	4.1	4.1
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	2007	2008	2009	2010	2011
1. Real GDP growth		3.5	2 ¼	1 ¼	2	2
2. Net lending of general government	EDP B.9	0.3	1.2	1.2	0.8	1.1
3. Interest expenditure	EDP D.41+ FISIM	2.2	2.2	2.1	2.1	2.0
4. One-off and other temporary measures		0.0	0.0	0.3	0.0	0.0
Potential GDP growth		2.3	2.4	2.2	2.1	2.0
Contributions to growth:						
- Labour		0.6	0.6	0.6	0.4	0.4
- Capital		0.7	0.8	0.7	0.7	0.7
- Total factor productivity		1.0	0.9	0.9	1.0	0.9
6. Output gap		0.65	0.6	- 0.35	-0.45	-0.45
7. Cyclical budgetary component		-0.4	-0.3	-0.1	0.1	0.1
8. Cyclically-adjusted balance (2+7)		-0.1	0.9	1.1	0.9	1.2
9. Cyclically-adjusted primary balance (8+3)		2.1	3.1	3.2	3.0	3.2

Table A.6 Divergences from previous update

	ESA Code	2007	2008	2009	2010	2011
Real GDP growth (%)						
Previous update		2.75	2 .5	1.75	1.75	NA
Current update		3.5	2.25	1.25	1.75	1.75
Difference		0.75	-0.25	-0.5	0	NA
General government net lending (% of GDP)	EDP B.9					
Previous update		-0.4	0.5	0.6	0.7	NA
Current update		0.3	1.2	1.2	0.8	1.1
Difference		0.7	0.7	0.6	0.1	NA
General government gross debt (% of GDP)						
Previous update		46.8	45.0	43.0	41.2	NA
Current update		45.7	42.1	39.6	38	36.2
Difference		-1.1	-2.9	-3.4	-3.2	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

	2007	2008	2009	2010	2011
Short-term interest rate (annual average)	4.3	5	4 ¾	4 ½	4 ½
Long-term interest rate (annual average)	4.3	4 ½	5	4 ½	4 ½
USD/€ exchange rate (annual average)	1.37	1.55	1.57	1.45	1.45
Nominal effective exchange rate	3.9	5 ¾	½	1	1
World GDP growth	4.9	3 ¾	3 ½	4 ¾	4 ¾
EU GDP growth	3.1	1 ¾	1 ½	2 ½	2 ½
World GDP growth excluding EU	5.4	4 ½	4	5 ¼	5 ¼
Growth of relevant foreign markets*	6.3	3 ¼	3 ¾	6 ¼	6 ¼
World import volumes, excluding EU	9.9	6 ½	6 ¾	6 ½	6 ½
Oil prices (Brent, USD per barrel)	72 ½	118	125	68	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 for 2010 and 2011 are the ministry of Finance’s own conservative estimates.

* Taken to be equivalent to the Dutch “*relevant wereldhandelsvolume*” (volume of relevant world trade).