



Stability Programme of the Netherlands

April 2011 Update

Status of the April 2011 Update of the Stability Programme

This update of the Stability Programme is based on the Parliamentary Support Agreement, the Budget Memorandum 2011 (Miljoenennota 2011) and finally the most recent short-term outlook provided by the CPB Netherlands Bureau for Economic Policy Analysis (CPB) on 22 March 2011.

Following the approval of the January 2010 update of the Stability Programme by the Dutch Council of Ministers on 29 January 2010, it was sent to the European Commission and to Parliament on that same day. The 2010 update of the Dutch Stability Programme, as well as the Council Opinion on the 2010 update of the Dutch Stability Programme, was discussed with Parliament on April 15th 2010.

The April 2011 update of the Dutch Stability Programme was approved by the Dutch Council of Ministers on 21 April 2011 and, thereafter, sent to both Parliament and the European Commission.

Consistency with the National Reform Programme

In the context of the European semester, the Stability Programme and the National Reform Programme have been simultaneously composed and presented to the European Commission. As such, the budgetary developments and targets in the Stability Programme are consistent with the structural reforms and policy ambitions as set out in the National Reform Programme. The same holds for the macro economic outlook.

Inevitably, this leads to a certain degree of overlap between both documents. This is both the case for the macroeconomic scenario as well as the analysis of certain policy challenges such as the sustainability gap. As far as the elaboration of these topics is concerned, the choice was made to adapt to the different scope of both documents. In practice this entails that the Stability Programme will elaborate in much greater detail on the macroeconomic developments (concentrating on the short term) and budgetary determinants and outcomes, whilst the National Reform Programme is the appropriate document to describe the various policy measures and reforms in view of the priorities of the Europe 2020 strategy. The Stability Programme, in other words, sets out the budgetary and economic context within which the policy intentions ought to be realized. Where appropriate, cross references are included in both documents.

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Chapter 1 Implementation of the Excessive Deficit Procedure recommendations to the Netherlands

On 14 October 2010 a new government was installed in the Netherlands. One of the main priorities of the new government is fiscal consolidation. The fully-specified consolidation path in the Coalition Agreement foresees that the Netherlands will correct the excessive deficit in 2012 and reach the Medium Term Objective in 2015. This means that the EMU-deficit of the Netherlands will be below the reference value of 3% of GDP a year ahead of the deadline that was set in the Council recommendations (adopted on 2 December 2009). Moreover, the new government adopted stricter budgetary rules to reach these ambitious budgetary targets. This chapter provides a broad overview of the policy measures that have been adopted or agreed to as well as the future policy objectives. More detail on the specific components of the strategy set out in the Coalition Agreement can be found in subsequent chapters of this update of the Stability Programme and in the National Reform Programme.

Development of the budgetary position 2010-2015

In line with the recommendations in the Annual Growth Survey, the Coalition Agreement contains a frontloaded multi-annual adjustment path. Table 1.1 provides a baseline scenario for the expected development of the Dutch budgetary position. The consolidation path in this baseline scenario is fully underpinned by measures that the government announced in the Coalition Agreement and the Budget Memorandum 2011. These are reported in the financial paragraph, which is included as an addendum. As reported in the notification to Eurostat, the deficit figure for 2010 turned out better than expected in last year's update of the Stability Programme, namely 5.4% of GDP instead of 6.1% of GDP. The main reason of this improvement is the better than expected outcome for growth, that resulted in higher tax revenues and social security contributions.

Based on the measures mentioned in the Coalition Agreement, the structural balance is foreseen to improve from -4.2% of GDP in 2010 to -1.3% of GDP in 2013, i.e. an average annual structural improvement of almost 1% of GDP. This means that the recommended average annual fiscal effort of at least $\frac{3}{4}\%$ of GDP over the period 2011-2013 will be achieved.

The government deficit will be already below the reference value in 2012, but also after 2012 the government plans to further improve the budgetary position towards the Medium Term Objective (MTO). In 2015 the MTO of a structural deficit of at least -0.5% of GDP is expected to be reached, implying an average yearly structural improvement of $\frac{3}{4}\%$ of GDP over the period 2010-2015. Moreover, the gross debt level is foreseen to peak in 2012 around 65% of GDP and decline thereafter.

The budgetary framework of the government is based on expenditure ceilings and a strict separation of revenues and expenditures. As long as the MTO has not been reached, the budgetary rules of the government make sure that all windfall revenues will be used for deficit reduction. If there are expenditure slippages, the government is obliged to take additional consolidation measures. Moreover, as recommended in the Euro Plus Pact that was agreed on 25 March 2011 by

the European Council, the government is working on draft legislation that will translate the EU fiscal rules as set out in the Stability and Growth Pact into national legislation.

Table 1.1 Key figures for the Netherlands

(% of GDP)	2010	2011	2012	2013	2014	2015
Real GDP growth	1.7	1¾	1½	1¼	1¼	1¼
General government balance	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
Government expenditures	50.2	49.0	48.3	47.7	47.6	47.6
Government revenues	44.8	45.3	46.0	45.9	46.3	46.8
Structural balance	-4.2	-2.9	-1.8	-1.3	-1.1	-0.5
Gross debt	62.7	64.5	64.9	64.7	64.1	63.0

The figures in this table for 2010-2012 are based on the April notification that has been submitted to Eurostat on 31 March 2011 and on the short-term outlook of the CPB Netherlands Bureau for Economic Policy Analysis (CPB) that was published on 22 March 2011. The figures for 2013-2015 are based on the CPB's medium-term growth forecast and projections in the Coalition Agreement, except the figures for gross debt which are based on calculations by the Ministry of Finance on the basis of the CPB's short-term outlook.

Budget Memorandum 2011

On 21 September 2010, the previous (caretaker) government presented the Budget Memorandum 2011 to parliament. For 2011, the Budget Memorandum expected the deficit to improve to 4.0% of GDP¹. Moreover, the Budget Memorandum presented a multi-annual package with deficit reducing measures that will be phased-in over the coming years. This package will lead to a structural improvement of €3.1 billion (0.5% of GDP) in 2015 (see table 1.2 below).

The improvement in the budget deficit of 2011 is caused by a combination of favourable business cycle developments that increase government revenues, the phasing-in of part of the multi-annual package with deficit reducing measures (0.3% of GDP), a consolidation package of €1.8 billion that had already been agreed by the previous government in 2008 (0.3% of GDP), and the reversal of the stimulus package (0.5% of GDP).

The Coalition Agreement

The coalition parties agreed to take consolidation measures, including the aforementioned multi-annual package with deficit reducing measures of €3.1 billion, to ensure a total reduction of the budget deficit of €18 billion (nearly 3% of GDP) by 2015. In line with the recommendations of the Annual Growth Survey, growth-friendly adjustment measures will be taken and the adjustment will be mainly expenditure based. As shown in table 1.1 the growth of government expenditures will be kept firmly below the rate of GDP growth, leading to a declining expenditure rate expressed in percentage of GDP. Over the course of 2011-2015, real expenditure growth will be on average 0.25% of GDP per year, which is well below the yearly anticipated growth rate of 1.25% of GDP over this period².

¹ Please note that the updated figures for 2011 (table 1.1) report a government deficit of 3.7% of GDP, based on CPB's most recent short-term outlook. This updated figure has also been notified to Eurostat on 31 March 2011.

² Source: CPB. Actualisatie Economische Verkenning 2011-2015 (p.18). November 2010.

The aim of the measures in the Coalition Agreement is to ensure a smaller and more effective government, with fewer rules, fewer subsidies, and fewer government employees. These measures enhance structural growth and strengthen confidence in the government and the economy. The government also takes measures to improve the financial incentives to work. By taking several labour market reforms (see also Chapter 4 of the National Reform Programme), the government provides stronger incentives to work. This is also in line with the suggested reforms in the Annual Growth Survey. According to calculations in the financial framework of the Coalition Agreement, total net fiscal savings of €18 billion in 2015 imply €24.8 billion (nearly 4% of GDP) of structural savings.

Table 1.2 gives an overview of the main measures in the Coalition Agreement (including those already announced by the previous government in the Budget Memorandum for 2011) and the expected consolidation that will be achieved over the years by taking these measures. The aforementioned total net fiscal savings of €18 billion in 2015 is thus the net result of total spending reductions (€ 8.3 billion minus €1.26 billion), increases in spending and investments (€3.5 billion), increases in taxation and social insurance contributions (€1.3 billion) and the announced measures in the Budget Memorandum 2011 (€3.1 billion). Table 1.1 shows the combined budgetary effect of the measures presented in the Budget Memorandum 2011 and the impact of the financial framework of the Coalition Agreement.

Table 1.2 Fully specified consolidation in the Coalition Agreement (in billion euro) ¹

Spending reductions	2011	2012	2013	2014	2015	Structural
Smaller government	0.2	1.2	2.7	4.1	6.1	6.6
Grants	0.2	0.5	0.8	1.1	1.4	2.5
Immigration and integration	0.0	0.0	0.0	0.1	0.1	0.1
International cooperation	0.4	0.9	0.8	0.9	0.9	0.9
Wage moderation in the public sector	0.8	0.8	0.8	0.9	0.9	0.9
Income transfers	0.0	1.5	2.7	3.6	4.3	9.0
Education	0.0	0.5	1.0	1.1	1.3	1.5
Health care (long-term care)	0.0	0.0	0.1	0.3	1.4	1.8
Health care (curative care)	0.0	0.2	0.3	0.3	1.4	1.8
Other	0.0	0.0	0.1	0.1	0.2	0.4
Total	1.5	5.6	9.4	13.4	18.3	25.4
Spending increases / Investments	2011	2012	2013	2014	2015	Structural
Health care (long-term care)	0.0	-0.9	-0.9	-0.9	-0.9	-0.9
Security	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5
Immigration and integration	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Infrastructure	0.0	0.0	-0.1	-0.2	-0.5	-0.5
Quality of education	0.0	-0.5	-1.0	-1.1	-1.3	-1.5
Nature and living environment	0.0	0.0	-0.1	-0.2	-0.3	-1.4
Total	-0.5	-1.9	-2.6	-2.9	-3.5	-4.7
Tax and social insurance contributions	2011	2012	2013	2014	2015	Structural
VAT-increase for performing arts, art and collectibles to 19%	0.1	0.1	0.1	0.1	0.1	0.1
Abolish tax credits for certain investments	0.1	0.1	0.1	0.1	0.1	0.1
Postpone the tax incentive for elderly workers by one year	0.0	0.1	0.1	0.1	0.1	0.1
Limit tax credits for living costs to children under the age of 21	0.0	0.1	0.1	0.1	0.1	0.1

Limit tax credits for gifts to certain charities and institutions	0.0	0.0	0.0	0.0	0.0	0.0
Limit tax credits for single parents	0.0	0.3	0.3	0.3	0.3	0.3
Increase tax on insurance for families	0.2	0.2	0.2	0.2	0.2	0.2
Adjustment of the treatment of pensions	0.0	0.0	0.7	0.7	0.7	0.7
Abolish the transferability of tax credits	0.0	0.2	0.2	0.3	0.3	0.4
Increase tax on insurance for companies	0.1	0.1	0.1	0.1	0.1	0.1
Rebate for companies	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Tax reduction for companies (instead of grants)	0.0	-0.1	-0.3	-0.4	-0.5	-0.5
Levy on subsidies for sustainable energy production	0.0	0.0	0.1	0.2	0.3	1.4
Stimulate movement in the rental housing sector	0.0	0.0	0.0	0.8	0.8	0.8
Vitality saving scheme	0.0	0.0	0.0	0.0	0.0	0.0
Effect of expenditure cuts cure	0.0	-0.2	-0.2	-0.3	-1.2	-1.5
Total	0.4	0.8	1.5	2.2	1.3	2.2
	2011	2012	2013	2014	2015	Structural
Reversal of healthcare own contribution³	0.0	-0.31	0.64	-0.95	-1.26	-1.26
Budget memorandum 2011 measures	2011	2012	2013	2014	2015	Structural
No positive wage adjustment 2010	0.6	0.6	0.6	0.6	0.6	0.6
Unutilised expenditure room	0.4	0.6	0.7	0.7	0.7	0.7
No occasional wage increases 2012-2015 (excl. education and health care)	0.0	0.1	0.1	0.2	0.3	0.3
Cutbacks on integration	0.1	0.2	0.2	0.3	0.3	0.3
Improvements in infrastructure management and maintenance efficiency	0.1	0.1	0.1	0.1	0.1	0.1
Savings in subsidies Economic Affairs	0.0	0.0	0.0	0.0	0.1	0.1
Childcare allowance reductions	0.0	0.2	0.2	0.3	0.3	0.3
Increase in tobacco taxes	0.2	0.2	0.2	0.2	0.2	0.2
Central government efficiency abatement	0.0	0.2	0.2	0.2	0.2	0.2
Accruals local governments and provincial fund	0.0	0.2	0.3	0.3	0.3	0.3
Total	1.4	2.3	2.8	3.0	3.1	3.1
	2011	2012	2013	2014	2015	Structural
Net effect measures Coalition Agreement	2.9	6.5	11.7	14.7	18	24.8

¹ Due to rounding the total may differ from the sum.

The government not only chooses to cut back drastically on government spending, but, in line with the recommendations of the Annual Growth Survey, it also plans growth-friendly investments. The objectives of these investments are to improve education, to reduce the regulatory burden, to create a more attractive investment climate and to increase the scope for innovation and for private sector initiatives. The government also plans to invest in infrastructure (roads and railways) and in renewable energy.

Moreover, in order to improve the long-term sustainability, the coalition has agreed to increase the statutory retirement age to 66 in 2020. The government is currently in consultation with social partners to investigate a further increase of the retirement age after 2020, linking it to the rise in

³ In the CPB's medium-term projection a technical assumption was made with regard to an increase in own contributions for health care. This increase leads to lower public health care expenses. The reversal of this technical assumption thus implies higher public expenses for health care. The figures in the table show the effect on the government deficit of this reversal.

life expectancy. These kinds of sustainability measures were also recommended by the heads of state or government in the Euro Plus Pact.

More details on these policy initiatives and structural reforms can be found in the 2011 National Reform Programme of the Netherlands.

Budget Memorandum 2012

For 2012 the government will stick to the expenditure ceilings, which include the effects of the measures mentioned in table 1.2 and the multi-annual package of deficit reducing measures that was agreed in the Budget Memorandum 2011. More specifically, on the expenditure side, the main measures that the government plans to take in 2012 include a decrease in health care allowances (€¾ billion), development aid (€½ billion), defense (€¼ billion), subsidies for reintegration of the unemployed (€¼ billion), and the compensation for living costs of children (€¼ billion). The measures on the revenue side include an increase in health care contributions (€2 billion), the partial phasing out of the acceleration in write-downs on investments (€1¼ billion), and higher disability insurance premiums for employers (€2 billion). The taxation burden will be lowered by a decrease in the unemployment insurance contributions for employers (€¾ billion) and a further reduction in taxation for companies (€¼ billion). According to the CPB, these measures will lead to a government deficit of 2.2% of GDP and a structural deficit of 1.8% of GDP in 2012. The gross debt will be 64.9% of GDP.

The macro-economic scenario underlying the 2012 budget will, as always, be based on forecasts of the CPB. The latest growth projections of the CPB (published on 22 March) are 1¾% in 2011 and 1½% in 2012. For both 2011 and 2012 the CPB projects inflation (HICP) at 2%. This is broadly in line with the Commission services' Forecast. More information on the current CPB projections for other macro-economic variables can be found in the subsequent chapters of this update of the Stability Programme.

Summary

Table 1.3 gives a summary of the policy response of the Netherlands to the recommendations of the excessive deficit procedure. The general government balance will be below the reference value in 2012 (a year ahead of the deadline), the annual average fiscal effort will be almost 1% of GDP over the period 2010-2013 (outperforming the recommended average annual fiscal effort of ¾% of GDP) and the MTO will be reached in 2015 (implying an average yearly improvement of ¾% of GDP over the period 2011-2015). These ambitious budgetary targets are fully underpinned by measures and strict budgetary rules, thereby providing a highly credible budgetary adjustment path.

Besides budgetary measures the Netherlands is taking growth-enhancing measures and structural reforms. Therefore, the Netherlands has put in place a comprehensive exit strategy that is in line with the recommendations and goals of the excessive deficit procedure, Europe 2020, and the Euro Plus Pact. More details on the structural reforms that the Netherlands is planning to take in response to the recommendations of the EU2020-strategy and the Euro Plus Pact can be found in

the National Reform Programme. Finally, the commitments of the Netherlands in the context of the Euro Plus Pact can also be found in Chapter 2.

Table 1.3 Summary of the policy response to the recommendations of the excessive deficit procedure

Reaction of the Netherlands to the 126(7)-recommendations	
Recommendation	Reaction
Put an end to the excessive deficit situation by 2013.	The excessive deficit is expected to be corrected by 2012.
Ensure an average annual fiscal effort of ¾% of GDP over the period 2011-2013.	The structural deficit is expected to improve from 4.2% of GDP in 2010 to 1.3% of GDP in 2013, i.e. an average annual improvement of almost 1% of GDP.
Halt the rapid rise of the government gross debt ratio.	The debt level is expected to peak in 2012 at around 65% of GDP, and decline thereafter.
Specify the measures that are necessary to achieve the correction of the excessive deficit by 2013.	The foreseen consolidation path is fully underpinned by already announced measures up to 2015. These measures are being implemented from 2011 onwards.
Accelerate the reduction of the deficit if economic or budgetary conditions turn out better than expected.	Better than expected revenues in 2010 were used for deficit reduction and contributed to the expected correction of the excessive deficit already in 2012. Moreover, as long as the MTO has not been reached, the budgetary rules ensure that further windfall revenues will be fully used for deficit reduction.

Chapter 2 Overall policy framework and objectives

In the aftermath of the crisis, the new government is firmly committed to restoring public finances to a healthy position, both in the medium and long term. To this end, the government will put the budget in order quickly and permanently. The government will also pursue budgetary reform and structural reforms to strengthen economic recovery. This chapter presents an overview of the budgetary impact of the ambitious package of measures that the government will implement.

Introduction

The Coalition Agreement drafted by the new minority government is called 'Freedom and Responsibility' (see box 2.1). The main focus of the Coalition Agreement is to consolidate government finances, whilst at the same time investing in the future in order to emerge stronger from the crisis. In this context, the government not only chooses to cut back drastically on government spending, it also plans to reprioritize to create room for investment. The objective is to improve education, to reduce the regulatory burden, to create a more attractive investment climate and to increase the scope for innovation and for initiatives from the private sector. The government also plans to invest in roads and railways and in renewable energy. More details on these policy initiatives can be found in the 2011 National Reform Programme of the Netherlands.

Box 2.1: The Dutch minority government

After the elections of 2010, the leaders of the liberal VVD party and the Christian Democrats (CDA) reached an agreement on forming a coalition. The Coalition Agreement, drafted by the two parties, forms the basis for the policies of the new government.

Because the coalition parties do not have a majority in parliament, the Coalition Agreement has been supplemented by a Parliamentary Support Agreement (*Gedooakkoord*). This additional agreement, drafted by the two coalition parties and the Freedom Party (PVV), sets out all policies for which the minority government can rely on the parliamentary support of the PVV.

The additional agreement includes a financial framework, which contains the expected budgetary consequences of chosen policies. The figures in the financial framework are leading, meaning that if policies do not generate the expected savings, additional measures will have to be taken. This provides assurance that the Netherlands will deliver on its budgetary objectives.

The chosen construction (a minority government with support from a third party) secures a majority in parliament for key policies, such as those concerned with budgetary rules, cutbacks in government spending and investments in education.

For policies that are desired by the coalition partners but that are not endorsed by the PVV, and as such are not included in the financial framework, the government can seek support from other political parties in parliament.

Measures taken by the caretaker government in 2010

As in the majority of the rest of the world, the crisis has had a severe impact on the fiscal position of the Netherlands. Coming from a government balance surplus in 2008, together with a decreasing debt which was projected to reach historically low levels, by the end of 2008 the unwinding economic crisis had changed the outlook dramatically. As spelled out in detail in last year's update of the Stability Programme, the government successfully intervened to stabilize the

financial sector and to limit the negative effects of the financial crisis on the real economy. The government, amongst other things, provided capital injections and implemented stimulus measures on top of allowing automatic stabilizers to operate freely, in line with the European Economic Recovery Plan. Now that the recovery is on track and consolidation measures are being implemented, the budgetary position of the government has started to improve.

On 21 September 2010, the Minister of Finance presented the Budget Memorandum 2011 of the caretaker government (that was in office until 14 October 2010) to parliament. For 2010, the budget deficit was estimated at 5.8% of GDP⁴, which is lower than the 6.1% that was expected in last year's update of the Stability Programme. The main reason for this improvement is the better than expected growth, resulting in higher tax revenues and social insurance contributions (0.4% of GDP).

For 2011, the Budget Memorandum expected the deficit to improve to 4.0% of GDP. Deficit reducing measures, together with favourable business cycle developments, play an important role in this improvement. The caretaker government specified cost-cutting measures of up to €3.1 billion (0.5% of GDP) in 2015. These measures include, among others, a freeze in government wages, a decrease in a number of subsidies and increases in tobacco taxes (see table 2.1). The recently installed government included these measures in its own budgetary outlook for the coming 5 years.

Table 2.1 Deficit reducing measures of the caretaker government (in billion euro)¹

Measures:	2011	2015
Wage restraint	0.4	0.4
No positive wage adjustment 2010	0.6	0.6
No occasional wage increases 2012-2015 (excl. education and health care)	0.0	0.3
Unutilised expenditure room	0.4	0.7
Cutbacks on integration	0.1	0.3
Improvements in infrastructure management and maintenance efficiency	0.1	0.1
Savings in subsidies Economic Affairs	0.0	0.1
Childcare allowance reductions	0.0	0.3
Increase in tobacco taxes	0.2	0.2
Central government efficiency abatement	0.0	0.2
Total	1.8	3.1

¹ Due to rounding the total may differ from the sum.

The budgetary framework and fiscal measures of the new government

The new government agreed to take consolidation measures, including the €3.1 billion mentioned above, to ensure a total reduction of the budget deficit of €18 billion by 2015. The aim of these measures is to ensure a smaller and more effective government, with fewer rules, fewer subsidies, and fewer government employees. The new government also takes measures to improve financial incentives to work, hence supporting structural growth. By establishing greater coherence between

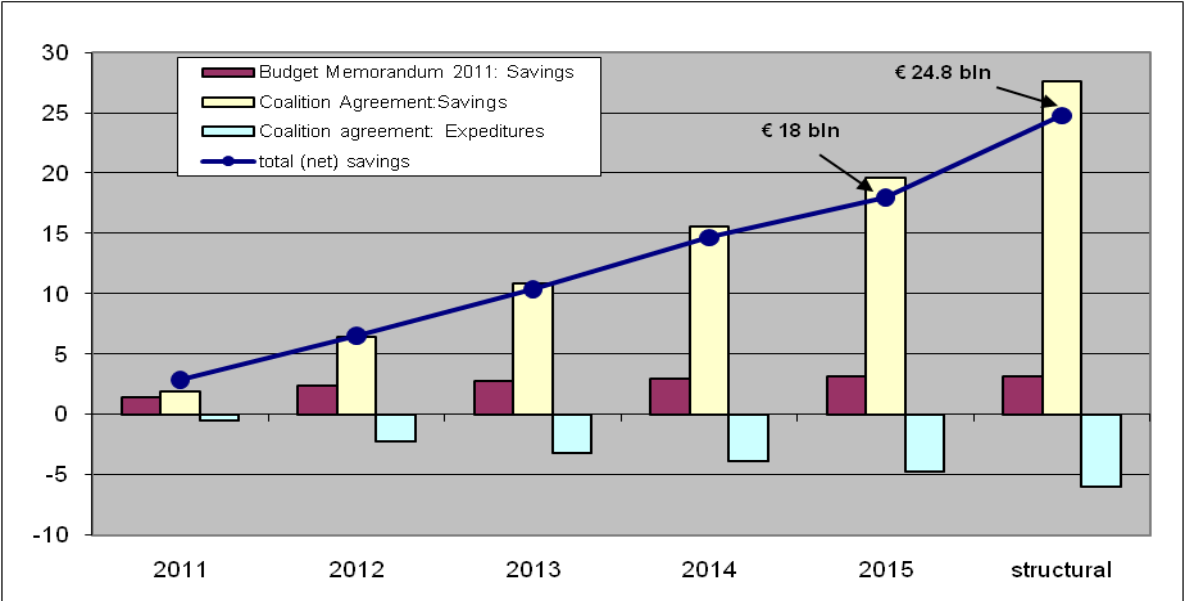
⁴ These figures have improved further since the Budget Memorandum 2011: the deficit for 2010 is 5.4% of GDP according to the last figures of the Statistics Netherlands, and the deficit for 2011 is projected by the CPB to be 3.7% of GDP. These numbers have been notified to Eurostat.

the level of income taxes and unemployment benefits, the government provides stronger incentives to work. This is in line with the suggested reforms in the Annual Growth Survey and, according to the CPB, this leads to an increase in structural employment of 1.1% in the long term.

This government is committed to a solid reduction of the sustainability gap. According to calculations in the financial framework of the Coalition Agreement, total net fiscal savings of €18 billion in 2015 imply €24.8 billion of structural savings; see figure 2.2. In terms of the sustainability gap (for instance, taking into account the effect of these measures on structural employment) this package translates to a reduction of the gap by about €24 billion. In March, the CPB calculated that to make public finances sustainable in the long term, structural budget cuts of €29 billion would be needed. By saving €24 billion, the incoming government aims to solve more than 80% of the sustainability problem. More information on the sustainability of Dutch public finances can be found in Chapter 7.

Around 90% of gross savings will be found by reducing expenditures, less than a tenth will be found by higher taxes and social insurance contributions⁵. Figure 2.2 shows the combined effect of the measures presented in the Budget Memorandum 2011 and the impact of the financial framework of the Coalition Agreement.

Figure 2.2 Budgetary projections underlying the Coalition Agreement



As far as the budgetary framework is concerned, the government will adhere to the budgetary framework that has served previous governments well, but will tighten some rules. The government will adhere to trend-based budgetary policy. Expenditures and revenues will be separated. All cyclical expenditure will be subject to strict limits; the government commits to stay within its real expenditure ceilings. Lower than expected interest expenditures will not increase room for other expenditures. This will improve control of public finances. It will also provide extra assurance as to the achievement of budgetary objectives.

⁵ Of the 18 bln of total gross savings in 2015 only 1.5 bln (1.3 bln increase in tax and social insurance contributions and 0.2 bln increase in tobacco taxes) consists of higher taxes and social insurance contributions.

The renewed budgetary rules, as advised by the Budgeting Framework Commission and ratified by the new government⁶, will also strengthen budgetary control. With a view to risk limitation, the budgetary rules on the provision of guarantees will be tightened. Tax expenditure will be monitored more closely. Additional intervention will be required if the government balance does not develop in line with the EDP recommendations or with other budgetary objectives. This is an extra guarantee that the requirements of the Stability and Growth Pact will be met. Moreover, as recommended in the Euro Plus Pact that was agreed on 25 March 2011 by the European Council, the government is working on draft legislation that will translate the EU fiscal rules as set out in the Stability and Growth Pact into national legislation (see box 2.2 below). More details on the Dutch budgetary framework can be found in Chapter 8.

Box 2.2 Dutch measures under the Euro Plus Pact

In the framework of the Euro Plus Pact, the Netherlands undertakes to implement the following four specific measures:

1. *Fostering competitiveness*

The introduction of a new business policy, comprising a sectoral, more business-driven approach, with fewer specific-purpose grants, more generic tax cuts and more scope for enterprise. The sectoral approach covers nine key areas in which the Netherlands is particularly strong, largely due to its location and history: water, agri-food, horticulture and starting materials, high-tech materials and systems, life sciences, chemicals, energy, logistics and creative industry.

2. *Fostering employment*

Making the social security system more activating and reducing benefit dependence by introducing a scheme for the lower end of the labour market that reforms existing benefit schemes.

3. *Contributing further to the sustainability of public finances*

The introduction of a new Act anchoring the rules of the Stability and Growth Pact in Dutch law. Alongside the European agreements, the new bill will also meet the Dutch parliament's wish for budgetary rules to be enshrined in law.

4. *Reinforcing financial stability*

The introduction of an Act that provides more scope for interventions regarding financial institutions than existing statutory instruments. The bill will add two new categories of powers to the existing range of intervention measures, allowing deposits, assets or liabilities, or shares of a financial institution in difficulties to be transferred to another institution or legal person. The first category relates to individual problem institutions and is designed to allow banks and insurers to be wound up in a timely and orderly fashion if they face insuperable problems. The second category serves a more far-reaching goal and provides for ways of safeguarding the stability of the financial system as a whole, if that stability is ever threatened.

⁶ Dertiende rapport Studiegroep Begrotingsruimte. 1 april 2010. <http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2010/04/01/dertiende-rapport-studiegroep-begrotingsruimte.html>

Chapter 3 Economic outlook

According to forecasts by the independent Netherlands Bureau for Economic Policy Analysis (CPB), the Dutch economy will continue to grow in the coming years. Growth is expected to be 1¾% of GDP in 2011 and 1½% in 2012. With these growth rates, GDP will be back to its pre-crisis level in mid-2012. This positive growth forecast for the coming years is primarily driven by exports, although private consumption and investments also contribute to the recovery. Unemployment decreases to 4% in 2012. These figures indicate that recovery is taking hold. Nevertheless, the outlook is surrounded by many uncertainties, and there are a number of developments that can potentially harm growth.

Introduction

This chapter provides an overview of the underlying macroeconomic assumptions used in this update of the Stability Programme. The emphasis of this chapter lies on the short-term outlook, i.e. the period 2011-2012. The medium-term outlook is described in greater detail in the National Reform Programme. The baseline scenario for the economic outlook presented in this chapter is based on the most recent short-term outlook (2011-2012) provided by the CPB on 22 March 2011. For 2013-2015, figures are based on the CPB's medium-term outlook, which was presented in March 2010 and updated in November 2010 to incorporate the budgetary and structural measures presented in the Coalition Agreement.

The growth forecast and decreasing unemployment are positive signs that recovery is taking hold. Private consumption and investment are slowly rebounding from negative to positive contributions to growth, meaning that the recovery is broader based. However, economic growth remains moderate the coming years, and a number of threats persist. Economic performance still differs significantly between developing and developed countries and between developed countries themselves. The corresponding macro-economic imbalances remain a severe problem on a worldwide scale and within the euro area, as confirmed by recent developments. Other trends, for instance regarding the oil price and its impact on inflation, are also worrying. Chapter 5 will present a sensitivity analysis with alternative scenarios to account for possible downward risks.

International developments and technical assumptions

The world economy will continue to recover from the crisis. World GDP is expected to grow around 4% in the coming years. However, the recovery is fragile and uneven. It has become apparent that the continuing growth in highly developed countries is in large part attributable to the powerful impulse that emerging countries give the world economy. The GDP of emerging Asian economies has grown by 9% in 2010, while recovery in the US and Euro area has lagged behind, with growth rates of 2.8% and 1.7% respectively. Economic performance has also differed significantly among highly developed countries themselves. In particular, imbalances in the euro area economy remain a severe problem.

Other threats to growth also remain. Many countries need to reverse their stimulus measures, reduce government expenditures and tighten monetary policies. In addition, political developments in the Middle East and Northern Africa are unfolding and an earthquake and tsunami of

unprecedented scale have hit Japan. The outcome of these crises and their consequences for the world economy are unpredictable. It is clear though that the unrest in the Middle East and Northern Africa and has an upward influence on the oil price in the short term. If oil and also food prices continue to be high, inflation, which is already high in some countries, may rise further.

Table 3.1 displays the external assumptions underlying the Dutch baseline scenario. These external assumptions are anticipated to be roughly in line with those that the European Commission uses for the Spring Forecast, except the oil price. The oil price projection in the baseline scenario is significantly lower than the Commission's. This may be largely due to the fact that the Spring forecast is published at a later date and therefore incorporates more recent information and realisations. As a rise in the oil price has a considerable impact on the Dutch economy, Chapter 5 will present a sensitivity analysis showing the effects of a higher oil price on key macroeconomic variables.

Table 3.1 External assumptions

	2010	2011	2012	2013	2014	2015
Short-term interest rate (annual average)	0.8	1¼	2	2½	3	3¼
Long-term interest rate (annual average)	3.0	3½	4	4¼	4¼	4½
USD/€ exchange rate (annual average)	1.33	1.34	1.34	1.35	1.35	1.35
Nominal effective exchange rate (Euro area)	-6.7	1.0	0.5	0.5	0.5	0.5
World GDP growth	4.8	4	4.1	4.1	4.1	4.1
EU GDP growth	1.7	1¾	2	2	2	2
World GDP growth excluding EU	5.6	4.6	4.7	4.7	4.7	4.7
Growth of relevant foreign markets	11.2	6¼	5	6	6	6
World import volumes, excluding EU	13.0	8.3	7.9	7.9	7.9	7.9
Oil prices (Brent. USD per barrel)	79½	97¼	97¼	81	81	81

Cyclical developments and prospects according to the baseline

The Dutch economy is expected to grow by 1¾% in 2011. For 2012, when the growth of relevant world trade is expected to decrease, growth is forecast at 1.5%. These figures show that the Dutch economy is recovering, but that growth remains moderate. Recovery is expected to be steady but slow, while the contraction of the Dutch economy in 2009 could be characterized as short but severe. This is in line with international studies that show that recovery after financial crises takes longer and is more modest than after non-financial crises.

Table 3.2 Contributions to real GDP growth, 2010-2012

	2010 share in %	2010 contribution to real GDP growth in percentage points	2011	2012
Private consumption	32	-0.2	¼	¼
Residential investment	4	-0.6	0	¼
Gross fixed capital formation	5	0.1	¼	0
Government spending	28	0.2	0	0
Exports	33	2.1	1¼	1
Total (real GDP growth) <i>rate of change in %</i>		1.7	1¾	1½

As can be seen from table 3.2 above, exports account for roughly one third of GDP and by large contribute the most to GDP growth in the period 2010-2012. Consequently, global economic developments are of great importance. As can be seen in table 3.1, growth of relevant world trade is expected to decrease in the next years. As a result, the contribution of exports to real GDP growth declines from 2.1 percentage points 2010 to 1 percentage point in 2012, and growth in 2012 is expected to be 0.25 percentage point lower than in 2011.

To some extent the declining contribution of exports to growth is compensated by private consumption, residential investment and fixed capital formation, but these demand categories cannot fully offset the decreasing contribution of exports. Nevertheless, it is projected that private consumption will grow with ¾% in 2011 and 1% in 2012 and that gross fixed capital formation will grow with 2½% in 2011 and 4¾% in 2012. These are clear indications that the economic recovery is becoming broader based (see table 3.3).

In comparison to previous crises, the role that government spending plays in the recovering Dutch economy is small. Developments in government spending will be discussed in greater detail in Chapter 4 and 7.

Table 3.3 Macroeconomic prospects

	ESA Code	2010	2010	2011	2012	2013	2014	2015
		Level (billion €)	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
Real GDP	B1*g	590.1	1.7	1¾	1½	1¼	1¼	1¼
Nominal GDP (€billion)	B1*g	590.1	3.2	3¼	3¾	3	3	3
Components of real GDP								
Private consumption expenditure	P.3	266.9	0.4	¾	1	¾	¾	¾
Government expenditure	P.3	167.8	1.5	0	0	¼	¼	¼
Gross fixed capital formation	P.51	104.8	-4.9	2½	3	3¾	3¾	3¾
Changes in inventories (Δ)	P.52+ P.53	2.2	1	0	0	0	0	0
Exports of goods and services	P.6	463.3	10.8	5½	4	4½	4½	4½
Imports of goods and services	P.7	415	10.5	5	3¾	4¾	4¾	4¾
Contributions to real GDP growth								
Final domestic demand		541.7	-0.3	¾	1	1	1	1
Changes in inventories (Δ)	P.52+ P.53	2.2	1	0	0	0	0	0
External balance of goods and services	B.11	48.4	1	¾	½	¼	¼	¼

Medium-term scenario/growth implications of major structural reforms

Potential growth for the period 2011-2015 is expected to be 1½% per year on average. Forecasted actual growth is the sum of the potential growth, the cyclical recovery and the short-term effects of government cutbacks. It is projected to be slightly below potential growth, namely 1¼% per year on average from 2013 onwards. This difference between potential and actual growth is mainly caused by the reductions in government expenditure, but this loss of growth is temporary. For the long term, i.e. the period after 2015, the CPB expects that the loss of GDP in the short term is more than fully compensated due to the implementation of planned government measures. Reforms by the government have a positive effect on growth and increase the sustainability of public finances. The measures increase employment in the long term by 1.1%, while the EMU-deficit decreases to 0.9% of GDP in 2015. For more details on the medium-term outlook, see Chapter 2 of the National Reform Programme.

Table 3.4 Cyclical developments

	ESA Code	2010	2011	2012	2013	2014	2015
1. Real GDP growth		1.7	1¾	1½	1¼	1¼	1¼
2. Net lending of general government	B.9	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
3. Interest expenditure	EDP D.41+ FISIM	2.0	2.2	2.3	2.6	2.8	2.7
4. One-off and other temporary measures		-0.2	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth		2	1.5	1.5	1.5	1.5	1.5
<i>Contributions to growth:</i>							
- Labour		0.4	0	0	0	0	0
- Capital		0.7	0.5	0.5	0.5	0.5	0.5
- Total factor productivity		0.9	1	1	1	1	1
6. Output gap (EC method)⁷		-1.9	-1.4	-0.9	-0.7	-0.6	-0.7
7. Cyclical budgetary component		-1.1	-0.7	-0.5	-0.4	-0.3	-0.4
8. Cyclically-adjusted balance (2-7)		-4.3	-2.9	-1.8	-1.3	-1.1	-0.5
9. Cyclically-adjusted primary balance (8+3)		-2.3	-0.7	0.5	1.3	1.7	2.2
10. Structural balance (8 - 4)		-4.2	-2.9	-1.8	-1.3	-1.1	-0.5

Sectoral balances

Growth of Dutch exports of goods (excluding energy) is expected to slow down (see table 3.5), compared to the rebound in 2010. This is mainly the result of a decrease in growth of relevant world trade (see table 3.1). The slight depreciation of the euro has a positive effect on the price competitiveness of Dutch products, but cannot compensate for the decrease in worldwide demand.

Table 3.5 Dutch exports performance

	2010	2011	2012
Domestically produced exports of goods (excluding energy)	7.2	3¾	3
Price of Dutch exports	6	3¾	-¼
Price competitiveness	-0.8	0	1
Unit labour costs relative to competitors (manufacturing industry)	-8.4	-2¾	-½

⁷ Please note that for comparability reasons the reported output gap is based on the EC method. As can be seen from the table, this development of the output gap is not consistent with the macro economic outlook provided, which is based on a different (CPB) method. In particular, whilst the output gap based on the EC method shows a closing of the output gap, the output gap based on the CPB method shows a widening (from -1.5 in 2011 to -2.1 in 2015; see *Actualisatie Economische Verkenning 2011-2015, p.12., November 2010*). This is most likely due to the fact that the output gap development according to the EC method is based on a significantly lower potential growth of just above 1%, in contrast to potential growth of 1.5% when employing the CPB method.

As can be seen in the table above, price competitiveness of Dutch exporters is in fact expected to be constant this year and to slightly improve in 2012. Unit labour costs, an important determinant hereof, are positively affected in 2011 by a slight depreciation of the euro. In 2012 unit labour costs improve further in relative terms, mainly as a result of wages increasing to a lesser extent than in non-euro countries. With respect to competitors in the euro area, virtually no change occurs. It must be noted, though, that aside from unit labour costs developments, another important determinant for Dutch export prices is the price development of raw materials, semimanufactured products and energy. The recent rise hereof has an upward impact on export prices. The same holds for the development of labour costs (see also table 3.7).

The forecast that Dutch price competitiveness improves next year thus assumes that exporters will lower their profit margins, mainly because not doing so would imply a loss of market share (since relevant world trade is expected to increase relative to Dutch exports). On balance, as can be seen in table 3.6, mainly driven by the above developments, the balance on goods and services improves in the near to medium term. For more information on the Dutch current account development, see section 3.3 of the National Reform Programme. The public sector is expected to remain a net borrower for the next years.

Table 3.6 Sectoral balances

% of GDP	ESA Code	2010	2011	2012	2013	2014	2015
Net lending/borrowing vis-a-vis the rest of the world	B.9	6.7	7.5	8.1	9.5	9.5	9.5
<i>Of which</i>							
- Balance on goods and services		8.2	8.7	9.0	9.8	9.8	9.8
- Balance of primary incomes and transfers		-0.2	0.2	0.5	0	0	0
- Capital account		-1.3	-1.3	-1.4	-0.3	-0.3	-0.3
Net lending/borrowing of the private sector		11.9	11.2	10.3	11	11	11
Net lending/borrowing of general government		-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
Statistical discrepancy		0.2	0.0	0.0	0.0	0.0	0.0

Labour market

The recovery of the economy is expected to lead to further tightening of the labour market. Although unemployment reached 4.5% in 2010, the increase was very modest compared to the contraction of production. Since the second half of 2010, there has been an increase in the number of job vacancies and temporary workers. These are positive signs that recovery is taking hold. Employment (measured in years) is expected to increase by ¾% in 2011 and 2012, while unemployment will decrease to 4¼% in 2011 and 4% in 2012.

The economic upturn also has a positive influence on the labour force. During the economic crisis, many people did not enter the job market because job prospects were bad (the so-called discouraged worker effect). This applied to many young people, who postponed their entry into the labour market and decided to continue studying. For the coming years, the number of people entering the labour market is expected to be higher than in the last two years. The labour force is foreseen to increase by 50 000 people in 2011 and 70 000 people in 2012.

Reforms by the government also strengthen the labour market. By stimulating participation, according to CPB's medium-term forecast, employment in the long term (i.e. after the government term) increases by 1.1% in structural terms. This positive impact is mainly due to fiscal measures that encourage job search and education policies that increase the number of higher educated people. Because the participation rate of people with higher education in comparison to the rest of the labour force is relatively high, the level of employment increases. More information on these measures can be found in the National Reform Programme.

Table 3.7 Labour market developments

	ESA Code	2010	2010	2011	2012	2013	2014	2015
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
Employment (x thousand persons)		8358	-1	1	1	-¼	-¼	-¼
Employment (billion hours worked) ⁸		11.6	-0.7	¾	¾	-¼	-¼	-¼
Unemployment rate⁹ (% of labour force)		390 (x thousand persons)	4.5	4¼	4	4¼	4¾	5
Labour productivity (persons)		63.1	3.1	¾	½	1½	1½	1½
Labour productivity, hours worked		78.9	2.8	1	¾	1½	1½	1½
Compensation of employees	D.1	300	0.8	3¼	4	3¼	3¼	3¼
Compensation per employee		36	1.6	2¾	3½	3½	3½	3½

⁸ Based on hours worked in employment contracts.

⁹ Note that for the years 2013-2015 a technical assumption (i.e. a linear extrapolation) has been made regarding the development of the unemployment rate in order to be consistent with the better than expected outcome in the short term forecast for the years 2011 and 2012 (compared to CPB's medium-term forecast for 2011-2015).

Chapter 4 General government balance and debt

The financial and economic crisis has had a profound impact on government finances. Consequently, since December 2009 the Netherlands has been placed in an excessive deficit procedure. The new government defined fiscal consolidation of government finances as one of its main priorities. This chapter quantifies this priority.

Introduction

This chapter provides an overview of the development of the budget balance and government debt for the period up to and including 2015. In consecutive order this chapter quantifies the policy strategy of the new government (as set out in Chapter 1) and the related medium-term objectives, provides an overview of the budget balance and its medium-term outlook, gives information on the development of the structural balance and government debt, and outlines the budgetary implications of major structural reforms.

The data for 2011 and 2012 are based on the latest short-term economic outlook of the CPB. For the years 2013 and onwards the data stem from the most recent medium-term economic outlook of the CPB, the updated Economic Outlook 2011-2015. The policy of the new government, as presented in the Budgetary Framework Annex of the Coalition Agreement and the Parliamentary Support Agreement, is also taken into account.

Policy strategy

2011 is regarded as a year of transition: from stimulating the economy to the fiscal consolidation of government finances. This transition coincides with a change of government. The caretaker government did not leave government finances unattended. The budget memorandum 2011, presented by the caretaker government, contains the first steps for fiscal consolidation: expenditure ceilings were adhered to and the stimulus measures were terminated. Also, the interventions in the financial sector – necessary during the economic crisis – are, if possible, being terminated; box 4.1 provides more details concerning the interventions in the financial sector.

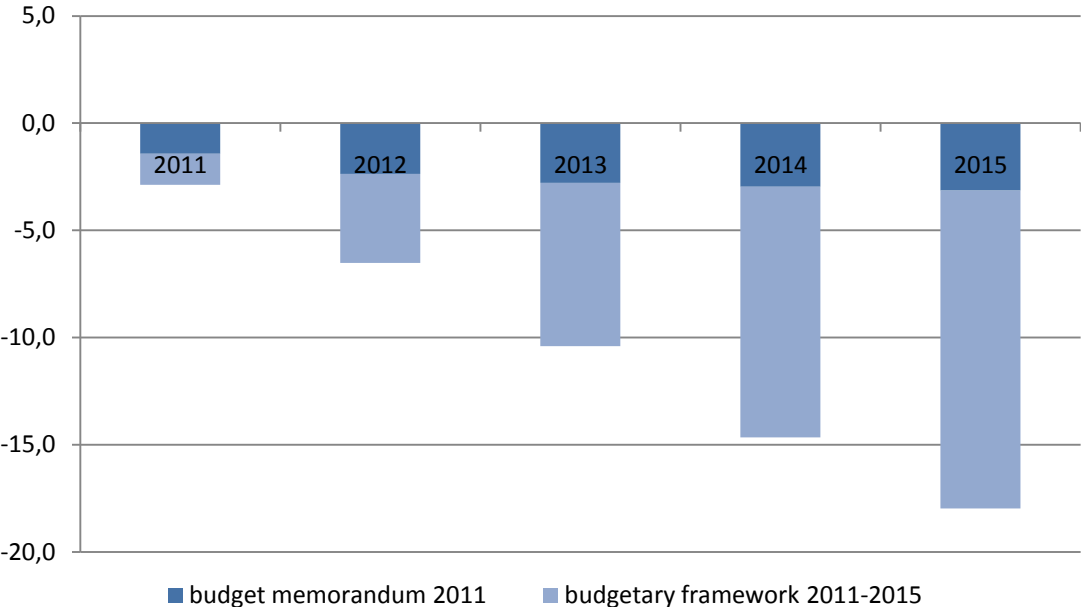
The Budget Memorandum 2011 also contains the fiscal consolidation measures which were announced in the supplementary policy agreement by the former government. The supplementary policy agreement was adopted in March 2009 with the aim of stimulating the Dutch economy in the short run, whilst safeguarding the sustainability of public finances in the medium and long run. This agreement therefore also constituted the start of the exit strategy, much needed to return to sustainable government finances. Fiscal consolidation of in total €1.8 billion in 2011 was announced in this supplementary policy agreement. These measures had already been incorporated in the national budget.

Furthermore, the supplementary policy agreement announced an additional cutback in expenditures, which will lead to €3.1 billion of lower expenditures from 2015 onwards. To this end, specific measures were presented by the caretaker government in the Budget Memorandum 2011. These measures are also part of the total consolidation strategy of the new coalition government

(see figure 4.2 and in table 4.3 row 5). The new government added additional fiscal consolidation measures to the Budget Memorandum 2011, and specified measures in detail. In total, these measures will improve the government balance in 2015 with €18 billion and will have a structural effect of almost €25 billion.

Figure 4.1 shows the combined effect of the consolidation measures taken by the government. Note that the reversal of the stimulus package is not visible in this graph. In 2011 these stimulus measures were terminated and the former government took a first step in fiscal consolidation with €1.8 billion. Figure 4.2 shows the additional austerity measures adopted in the Budget Memorandum 2011 by the caretaker government and the budgetary framework of the present government.

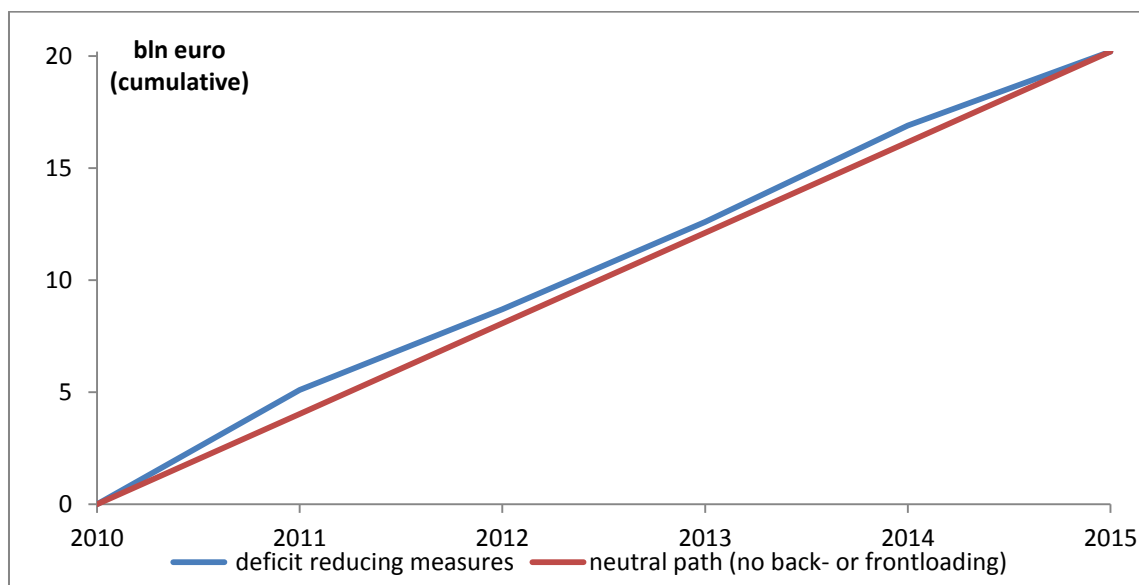
Figure 4.1 Cutbacks of present government (in billion euro)



The figure above clearly shows to what extent both the former and new government contribute to fiscal consolidation. With the measures presented in the Budget Memorandum 2011, the caretaker government contributed to the fiscal consolidation. In doing so, the caretaker government adhered to one of the recommendations addressed to the Netherlands in the excessive deficit procedure, as it provided a credible start to specifying the necessary fiscal consolidation measures in order to bring the budget deficit back to below 3% of GDP in 2013 at the latest. Moreover, the adopted measures lead to so-called 'front-loading' of fiscal consolidation from 2010 to 2011, as stimulating the economy is replaced by a consolidation strategy. For the remainder of the government term, the measures taken by the new government are relatively evenly distributed. This also can be seen in figure 4.2 in which the timing of the measures is shown against a neutral path. When the fiscal consolidation measures are above the red line there is front-loading and, vice versa, when they

would be below this line consolidation is back-loaded. In the Article IV consultation of the Netherlands in 2011 the IMF also concluded a sizeable frontloading of the consolidation effort¹⁰.

Figure 4.2 Front-loading of the government measures



The consolidation of government finances is strengthened by the implementation of an adjusted set of budgetary rules. These budgetary rules support control of public finance in order to reduce the budget deficit and debt and to respect the Medium-Term Objective. The government will adhere to the trend-based budgetary policy. Expenditures and revenues remain separated strictly. All cyclical expenditures will again be subject to the expenditure ceilings and lower interest expenditure will not cause any margin underneath these ceilings. This will improve the control of downward risks and will provide additional assurance as to the achievement of the budgetary objectives. With respect to the revenue side of the balance, automatic stabilization will be maintained, while discretionary revenue policy is subject to ceilings.

Moreover, the budgetary rules on the provision of guarantees will be reinforced. Tax expenditures will be monitored more closely. Additional intervention is required if the budget balance does not develop in line with the SGP agreements or in line with the budgetary objectives. This will be the case if the estimated budget balance deviates negatively by one percentage point from the projected path for the budget balance. Note that this implies that additional consolidation measures will be taken if the government deficit were to reach 2.8% of GDP in 2013. This provides an extra assurance that the government deficit will be below the 3% reference value in 2013. Chapter 8 will provide more detailed information on the budgetary rules.

Medium-term budgetary outlook

On 14 October 2010 the new government was installed, and it presented its coalition agreement and budgetary framework. The budget memorandum 2011 was amended by this budgetary

¹⁰ Kingdom of the Netherlands—The Netherlands 2011 Article IV Consultation: Preliminary Conclusions, 28 March 2011, <http://www.imf.org/external/np/ms/2011/032811.htm>

framework, thereby implementing the new budgetary framework in the national budget for the years 2011 until 2015.

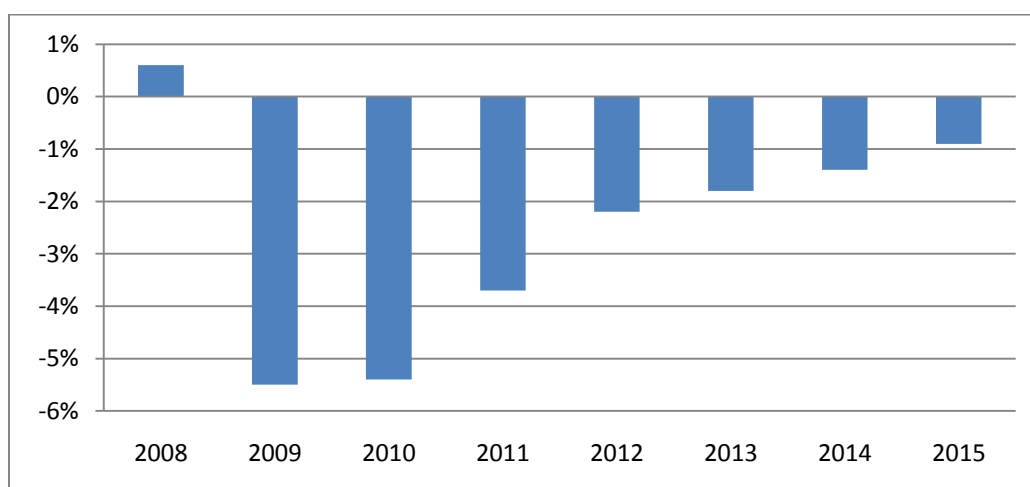
Table 4.3 provides an aggregated overview of the budgetary framework of the new coalition government. The budgetary framework quantifies the fiscal consolidation priority of the new government, which accumulates to €18 billion of measures taken in 2015, with a structural effect of almost €25 billion (see last column of table 4.3). Chapter 1 provides a detailed overview of the measures presented in table 4.3 and Chapter 6 explains the expenditure cutbacks.

Table 4.3: Overview fiscal consolidation (in billion euro, + is an improvement in the balance)

	2011	2012	2013	2014	2015	Struc.
1. Reversal of healthcare personal contribution	0.0	-0.3	-0.6	-1.0	-1.3	-1.3
2. Expenditure reductions	1.5	5.6	9.4	13.4	18.3	25.4
3. Expenditure increases	-0.5	-1.9	-2.6	-2.9	-3.5	-4.7
4. Tax and social insurance contributions	0.4	0.8	1.5	2.2	1.3	2.2
Subtotal	1.4	4.2	7.6	11.7	14.8	21.6
5. Budget memorandum 2011 measures	1.4	2.4	2.8	3.0	3.1	3.1
Total	2.9	6.5	10.4	14.7	18.0	24.8

Figure 4.4 illustrates the budget balance path. The figure clearly indicates the impact of the financial and economic crisis. The actual budget balance showed a surplus of 0.6% of GDP in 2008, whereas 2009 and 2010 showed a deficit of 5.5% and 5.4% of GDP respectively. Full automatic stabilization and the supplementary policy agreement of March 2009 account for the majority of the decline of the general budget balance.

Figure 4.4: Actual general budget balance (percentage of GDP)



Even more so the figure indicates the effect of the fiscal consolidation measures taken by the present government and the economic recovery. The general budget balance is expected to improve from a deficit of 5.4% of GDP in 2010 to a deficit of less than 1% of GDP in 2015.

Recommendations of the excessive deficit procedure require the Netherlands to bring the general government deficit below 3% of GDP in 2013, and to this end, ensure an average annual fiscal effort of ¾% of GDP over the period 2011-2013. The budget deficit is reduced within the required period. The budget deficit is expected to be below the reference value already in 2012, which is one year earlier than recommended. Table 4.5 decomposes the general budget balance for the three government subsectors.

Table 4.5: Decomposition actual general budget balance (in percentage of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015
Central government	0.5%	-3.4%	-4.3%	-2.2%	-1.2%	-0.4%	-0.1%	0.3%
Social Security funds	0.6%	-1.4%	-0.4%	-0.7%	-0.3%	-0.9%	-0.9%	-0.9%
Local government	-0.4%	-0.6%	-0.8%	-0.7%	-0.7%	-0.5%	-0.4%	-0.3%
General Government	0.6%	-5.5%	-5.4%	-3.7%	-2.2%	-1.8%	-1.4%	-0.9%

Structural balance

The financial and economic crisis had a profound impact on government finances. Moreover, as the Council concluded, the impact of the economic crisis will coincide with the negative effects of demographic ageing on potential output and the sustainability of public finances. This makes achieving the Medium-Term Objective (MTO) all the more important. For the Netherlands the MTO is defined as a budgetary balance between 0.5 and -0.5% of GDP in structural terms. This objective will be reached in 2015.

Table 4.6 provides an overview of the structural balance. The Netherlands is expected to outperform the required annual average fiscal effort of ¾% of GDP over the period 2011-2013.

Table 4.6: Actual and structural budget balance (in percentage of GDP)

	2010	2011	2012	2013	2014	2015
Actual balance	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
Cyclical adjustment	-1.1	-0.7	-0.5	-0.4	-0.3	-0.4
Special items	-0.2	0.0	0.0	0.0	0.0	0.0
<i>of which: capital support ABN/Fortis</i>	-0.2					
Structural balance	-4.2	-2.9	-1.8	-1.3	-1.1	-0.5
Output gap (EC method) ¹¹	-1.9	-1.4	-0.9	-0.7	-0.6	-0.7

The cyclical adjustment is declining over time due to a decreasing difference between actual growth and potential growth. In other words, the output gap is declining. Note however that the output

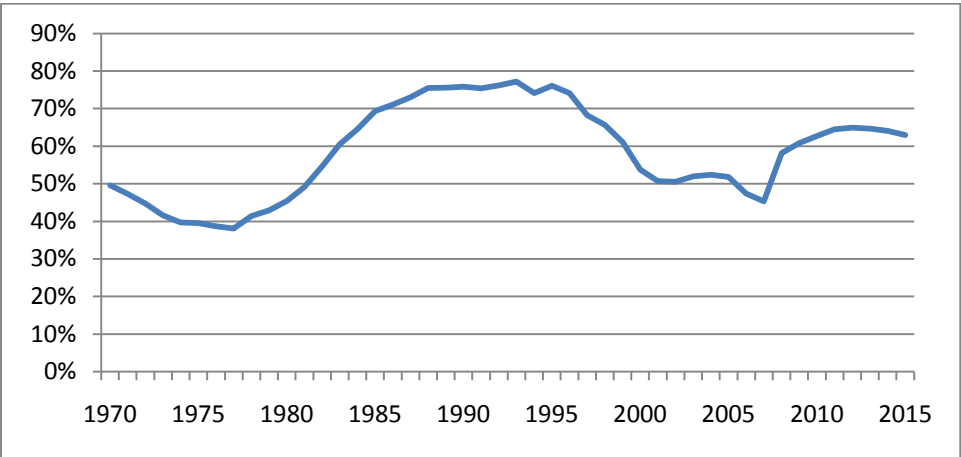
¹¹ Please see footnote 5 (Chapter 3).

gap is not closing in 2015 (see footnote 5). This is due to the short term effects of fiscal consolidation on economic growth.

Government debt

Figure 4.7 shows the development of government debt since 1970. The crisis changed the ongoing downward trend dramatically. The enormous rise in 2008 is due to the interventions in the financial sector, amounting to approximately 14% of GDP. Additionally the deterioration of the budget balance since 2009 led to further growth in debt.

Figure 4.7: General government debt (in percentage of GDP)



After a slight increase in 2011-2012, government debt is expected to decline from 2012 onwards (see figure 4.8). Although the yearly budget deficit is improving considerably, the expected deficits for this government term still cause the government debt level (in absolute terms) to increase. On the other hand, government debt as percentage of GDP will decline due to the denominator effect and, to a lesser extent, because of repayments of the financial interventions.

Table 4.8 General government debt (in percentage of GDP)

	2010	2011	2012	2013	2014	2015
Gross debt	62.7	64.5	64.9	64.7	64.1	63.0
Change in gross debt ratio	1.9	1.8	0.4	-0.2	-0.6	-1.1
Contributions to changes in gross debt						
Primary balance ('- = surplus')	-3.0	-1.5	0.1	0.8	1.4	1.8
Interest expenditure	2.0	2.2	2.3	2.6	2.8	2.7
Stock-flow adjustment	3.3	1.1	-2.0	-3.6	-4.8	-5.6
<i>of which denominator effect</i>	<i>-2.0</i>	<i>-1.9</i>	<i>-2.3</i>	<i>-2.1</i>	<i>-1.9</i>	<i>-1.8</i>

Box 4.1: Interventions related to the financial crisis

The first half year of 2010, the Dutch government undertook several actions to facilitate the demerger and separation of its acquired business units, referred as N/share entities, in former ABN Amro. Upon the finalization of the legal separation, in April 2010, the separated assets were transferred to a newly established holding company, ABN Amro Group N.V., in which the Dutch state participates as the majority shareholder. The stake in Fortis bank Nederland Holding, was also transferred to this new parent.

Some of the government actions, required for demerger and separation, influence the gross debt ratio and budget balance. These cases will be discussed forthwith.

In March 2010, the Dutch State injected an amount of €438 million of capital in RFS Holdings. This injection was expected and is part of the recapitalization program announced earlier in 2009. A second injection, with a principal amount of €490 million, was subsequently transferred directly to ABN Amro Group N.V. Both injections increase gross debt by the total amount invested. Whilst both transactions are characterized as non-financial transactions, the budget balance was negatively affected as well.

In August 2010, Aegon and the Dutch state settled on the terms for the repurchase of all securities outstanding. Under the terms agreed, Aegon repaid 500 million of principal in 2010. The remaining principal, with a notional value of €1.5 billion, will be repaid in 2011. With this final payment, Aegon will also pay the State a premium for repurchase, which is fixed at €750 million.

The receipt of both the principal amount and premium, will reduce gross debt by in total €2.75 billion. Furthermore, the premium shall improve the budget balance in 2011.

Regarding the bridging loan to Fortis, an amount of €3.25 billion in principal was paid off in 2010. As a consequence of this, the gross debt falls with this amount. Further repayments, are expected in the upcoming years.

Under the loan facility program to Greece, a bilateral loan of €1.2 billion was provided in 2010. This is part of a larger bilateral loan, with a total amount of approximately €5 billion. On this loan, Greece pays a coupon, which entails a compensation for both interest and servicing costs. In 2010 the Dutch state received a total coupon of €30 million.

Please find below an updated table financial sector interventions, note that all 2010 values are still provisional. With the publication of the annual report in May 2011, values will be final.

Capital flows in million euro	2008	2009	2010	2011
Acquisition Fortis/ABN Amro				
Participation Fortis	16.800	1.350	490	
Participation RFS	6.540		438	

Sale FCI (Fortis Corporate Insurance)		-350		
Bridging loan to Fortis	44.341			
Redemption bridging loan		-36.516	-3,250	-825
Interest receipts on bridging loan	-502	-705	-167	-60
Dividend receipts RFS Holding	0	0	-6	
Capital Relief Instrument ABN-AMRO (CRI)				
Guarantees issued		32.611		
Guarantees ended			-32.611	
Fees received on guarantees		-28	-165	
Mandatory Convertible Notes (ABN AMRO)				
MCN's acquired		800	-800	
MCN's converted (added to ABN Amro share capital)		1.800	-1.800	
Counter Indemnity ABN-AMRO				
Guarantee issued			950	
Fees received on guarantee			-26	-26
Core tier 1 securities				
CT1's acquired ING	10.000			
CT1's acquired Aegon	3.000			
CT1's acquired SNS Reaal	750			
Redemption ING		-5.000		
Redemption Aegon		-1.000	-500	-1500
Redemption SNS Reaal		-185		
Coupon received ING		-645	-39	
Coupon received Aegon		-166	-11	
Coupon received SNS Reaal		-38	-1	
Repurchase Fee received ING		-295	-52	
Repurchase Fee received Aegon		-108	-52	-750
Repurchase Fee received SNS Reaal		0		
ING IABF (Back up facility)				
Funding fee		3.903	4.345	
Management fee		59	47	
Receipts from RMBS portfolio		-3.819	-4.058	
Guarantee Fee		-129	-103	
Additional guarantee Fee		0	-154	
Additional Fee		-14	-77	
Balance		0	0	

Guarantees on interbank loans				
Guarantees issued	2.740	47.535		
Guarantees ended		-3.174	-8.103	-2.930
Fees received on guarantees	0	-116	-407	-357
Loan to Iceland				
Payments DGS (Dutch guarantee scheme)	1.236	192		
Loan to Greece				
Loan to Greece			1.248	1.705
Received total coupon			-30	-119

Chapter 5 Sensitivity analysis and comparison with previous update

Compared to the previous update, economic growth figures are roughly in line for the reported period, although these are not directly comparable. General government net lending figures have been revised upwards, mainly due to stronger than expected economic recovery in combination with significant consolidation efforts. Given that, as explained in Chapter 3, downside risks prevail for the macroeconomic outlook, this chapter analyses the development of key macroeconomic variables in alternative scenarios of a slowdown in world trade and higher oil prices.

Comparison with previous update

Table 5.1 presents the differences as compared to the previous Stability Programme¹². Compared to the previous update, real growth figures for the year 2010 show a small increase. For 2011 and 2012, the opposite is the case. Please note, however, that the growth figures in the previous update were based on a medium-term outlook stemming from before the crisis (September 2007). The new figures are instead based on a recent short-term outlook by the CPB. The new figures are thus based on an entirely different context, i.e. recovery from the crisis in comparison to pre-crisis medium-term growth prospects. The new growth figures also take into account the short-term effects of the consolidation measures taken on economic growth prospects. As such, the figures are not easily comparable, mainly in view of the effect of the significant fall back in growth in 2009.

Table 5.1 Divergence from previous update¹³

	ESA Code	2010	2011	2012	2013	2014
Real GDP growth (%)						
Previous update		1.5	2.0	2.0	NA	NA
Current update		1.7	1¾	1½	1¼	1¼
Difference		0.2	-¼	-½	NA	NA
General government net lending (% of GDP)	EDP B.9					
Previous update		-6.1	-5.0	-4.5	NA	NA
Current update		-5.4	-3.7	-2.2	-1.8	-1.4
Difference		0.7	1.3	2.3	NA	NA
General government gross debt (% of GDP)						
Previous update		58.2	62.2	67.4	NA	NA
Current update		62.7	64.5	64.9	64.7	64.1
Difference		3.5	2.3	-1.5	NA	NA

For general government net lending, in comparison to the previous update the figures have been revised upwards. As explained in greater detail in the previous chapters, for 2010 and 2011 this is mainly as a result of stronger than expected economic recovery from the crisis. In 2012, on top of this, the consolidation package of the newly installed government further improves net government

¹² For the sake of clarity it must be noted that in this case reference is made to the January 2010 update of the Stability Programme.

¹³ Please note that the 2010 Stability Programme only covered the period 2008-2012, i.e. that comparison with 2013 and 2014 is not possible.

lending. The expected improvement of the budget balance from 2010 to 2015 translates into a stabilization of debt from 2012 onwards with a slight improvement towards the end of the government term. For more details on debt dynamics, see Chapter 4.

Alternative scenarios and risks including sensitivity of budgetary projections

In Chapter 3 the economic outlook was presented. As stated, a great degree of uncertainty surrounds the baseline scenario, mainly resulting from downward risks with respect to the degree of the global recovery, remaining imbalances in the Euro area and a higher than expected rise in inflation in the near future, mainly fuelled by a further rise in the oil price. The Netherlands, being a small open economy, is particularly sensitive to these external developments. Therefore, this sensitivity analysis will present possible effects of a slowdown in one of the most influential external assumptions for Dutch economic performance, namely relevant world trade. In addition, the effects of a higher oil price with respect to the base scenario will be analysed.

Scenario 1: A slowdown in world trade, lower Dutch exports

The recovery of the global economy could be weaker in the short-term as a result of a slower restoration of consumer and producer confidence. This would entail higher savings by consumers and a much slower build-up of inventories by the corporate sector, thereby providing a negative impulse to global trade activity. Due to lower demand compared to the baseline, both international as well as domestic, employment would decrease. Lower VAT receipts, in combination with an increase in unemployment benefits, lead to a deterioration of the government balance. Table 5.2 displays the expected effects of a cumulative decrease in relevant world trade by 1 percentage point over the period 2011-2012.

Table 5.2 Alternative scenario 1, comparison with baseline scenario (deviations in %)

	Baseline scenario 2011	Baseline scenario 2012	Deviation from baseline scenario 2011	Deviation from baseline scenario 2012	Cumulative deviation from baseline scenario (2011-2012)
<i>Volume of relevant world trade</i>	6¼	5	-0.3	-0.7	-1.0
Wage rate private sector	1¾	2½	0	-0.2	-0.2
Consumer price index (CPI)	2	2	0	-0.1	-0.1
Volume of GDP	1¾	1½	-0.1	-0.3	-0.4
Volume of private consumption	¾	1	-0.1	-0.4	-0.5
Volume of private investment (excluding residential investment)	4	4¾	-0.7	-1.7	-2.4
Volume of exports of goods (excluding energy)	7¼	5¼	-0.3	-0.5	-0.8
Employment	1	1	0	-0.2	-0.2
General government balance (% of GDP)	-3.7	-2.2	0	-0.2	-0.2

Scenario 2: A \$15 increase in the oil price

The figures in this update of the Stability programme are based on an oil price of \$ 97 per barrel of Brent oil in both 2011 and 2012, up from \$79.5 in 2010. The recent developments in North Africa and the Middle East have induced a further short-term rise in oil prices. In order to mimic this development, this scenario will assume a \$15 higher oil price over the course of 2011 and 2012 compared to the base scenario. This higher oil price is anticipated to be in line with the Commission's own external assumptions, which indicate an oil price of around \$112 for both years. The difference between the oil price from the Commission's external assumptions and the oil price used in this update of the Stability programme (based on the CPB's *Centraal Economisch Plan* from March 2011) is likely to be largely explained by the fact that the Spring forecast is published at a later stage and therefore incorporates more recent information and realisations.

The higher oil price would result in higher inflation and a reduction in purchasing power, causing private consumption to increase less than expected. These effects would also materialise in the global economy, with adverse effects on relevant world trade and subsequently on Dutch exports. There might also be a positive effect as 'oil dollars' (revenues of major oil exporting countries) can translate in extra demand which might benefit economies like the Netherlands. Based on historical

experience however, there is a time lag before this positive effect occurs. The cumulative decrease in world trade is therefore the result of a negative shock in 2011, followed by a (smaller) positive shock in 2012. In this respect it must be noted that a downward risk in this scenario is a more delayed and significantly less positive impulse to global demand from oil exporting countries if the current developments in the Middle East and Northern Africa were to be sustained.

In addition to the above developments, due to worsened production possibilities, the growth in volume of Dutch private investment would almost come to a standstill in 2012. On the whole, GDP growth in 2011 and 2012 will drop by respectively 0.4 and 0.3 percentage point. Higher gas revenues would not completely offset the increase in unemployment benefits and lower tax revenues, causing a slight deterioration in the government balance.

Table 5.3 Alternative scenario 2, comparison with baseline scenario (deviations in %)

	Baseline scenario 2011	Baseline scenario 2012	Deviation from baseline scenario 2011	Deviation from baseline scenario 2012	Cumulative deviation from baseline scenario (2011-2012)
<i>Oil price (Brent, \$ per barrel)</i>	97	97	7.5	7.5	15
Volume of relevant world trade	6¼	5	-0.8	+0.4	-0.4
Import price of goods	4¾	¼	2.9	0.4	3.3
Long-term interest rate	3½	4	0.7	-0.5	0.2
Wage rate private sector	1¾	2½	0.2	0.3	0.5
Consumer price index (CPI)	2	2	0.5	0.8	1.3
Volume of GDP	1¾	1½	-0.4	-0.3	-0.7
Volume of private consumption	¾	1	-0.4	-0.5	-0.9
Volume of private investment (excluding residential investment)	4	4¾	-2.3	-1.6	-3.9
Volume of exports of goods (excluding energy)	7¼	5¼	-0.8	0.3	-0.5
Employment	1	1	-0.2	-0.3	-0.5
General government balance (% of GDP)	-3.7	-2.2	-0.1	-0.2	-0.3

Please note that in both scenario 1 as well as scenario 2, it is still expected that the Netherlands will correct its excessive deficit already in 2012.

Chapter 6 Quality of public finances

The government will improve the quality of public finances both on the expenditure and revenue side. On the expenditure side, major cutbacks are implemented, primarily at the central government level, leading to less administrative burden and a more efficient government. On the revenue side, reforms will make the Dutch tax system simpler, more robust and more fraud-proof.

Developments on the expenditure side

The majority of the fiscal consolidation is realized with expenditure cutbacks. The net reductions on the expenditure side can be found in table 6.1. This table also provides an aggregated overview of the division of the net reduction over the different expenditure ceilings.

Table 6.1: Overview expenditure reductions (in billion euro, + is an improvement in the balance)

	2011	2012	2013	2014	2015
Expenditure reductions	1.5	5.6	9.4	13.4	18.3
Expenditure increases	-0.5	-1.9	-2.6	-2.9	-3.5
Net expenditure reductions	1.1	3.7	6.8	10.4	14.7
<i>of which central government</i>	<i>1.0</i>	<i>3.1</i>	<i>4.7</i>	<i>7.2</i>	<i>9.3</i>
<i>of which social security</i>	<i>0.0</i>	<i>0.6</i>	<i>1.0</i>	<i>1.5</i>	<i>1.9</i>
<i>of which health care</i>	<i>-0.1</i>	<i>-0.5</i>	<i>-0.3</i>	<i>-0.1</i>	<i>1.4</i>
<i>of which other</i>	<i>0.2</i>	<i>0.6</i>	<i>1.5</i>	<i>1.8</i>	<i>2.2</i>

Most of the expenditure cutbacks are realized at the central government, which in turn, is explained primarily by downsizing the role of the government, reducing the administrative burden through a clearer division of responsibilities and powers and by operating in a more efficient manner. This also can be seen in table 6.2 in which the government expenditures and revenues are presented in different categories. The category public service shows a decline of 2.5 percentage points of GDP over the period 2009-2015. The expenditures on social security also decline the coming years, despite rising old age benefits in this period. Expenditures on unemployment benefits become smaller over this period also due to government measures, whereas the expenditures on health care become larger every year. This is mostly due to ageing and new technologies. The expenditures on interest payments increase because both the short- and long-term interest rates are projected to increase, and because the expected deficits increase public debt. Together this leads to a projection of the government balance that improves year-on-year.

Table 6.2: Government expenditures and revenues (in percentage of GDP)

	2009	2010	2011	2012	2013	2014	2015
Total revenue	44.8	44.8	45.3	46.0	45.9	46.3	46.8
<i>of which taxes</i>	23.9	24.2	23.8	23.8	24.2	24.5	24.6
<i>of which social contributions</i>	14.6	14.8	15.7	16.2	15.6	15.6	15.9
<i>of which property income</i>	3.1	2.7	2.6	2.7	2.8	2.8	2.8
<i>of which other revenue</i>	3.2	3.2	3.2	3.3	3.3	3.4	3.4
Total expenditure	50.3	50.2	49.0	48.3	47.7	47.6	47.6
<i>of which public health</i>	9.7	9.9	9.9	10.1	10.3	10.4	10.7
<i>of which social security</i>	12.5	12.5	12.4	12.2	12.0	12.0	12.1
<i>of which public service</i>	11.6	11.3	11.0	10.6	9.9	9.5	9.2
<i>of which education</i>	5.5	5.6	5.4	5.4	5.3	5.3	5.3
<i>of which interest payments</i>	2.2	2.0	2.2	2.3	2.6	2.8	2.7
<i>of which other expenditures</i>	8.8	8.9	8.1	7.7	7.6	7.6	7.6
EMU-balance	-5.5	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9

Box 6.1: Impact of the Fundamental Budget Review

In the 2010 update of the Stability Programme, it was reported that Fundamental Budget Review was taking place. The aim of the Fundamental Budget Review was to provide politicians with robust options to reduce spending, covering a wide range of policy areas. Twenty reports were produced¹⁴, each with at least one compulsory option to cut expenditures by 20%. In total, these 20% spending reduction options equaled to the identification of about €30-40 bln. of potential savings.

The reports were presented to the government and the general public on April 1, 2010. In the period between commencement and finalization of the Fundamental Budget Review, the government fell and national elections were scheduled for early June that year. This meant that the 20 reports were unexpectedly well-timed. Political parties made extensive use of the ideas for the Fundamental Budget Review. Analysis by the Ministry of Finance shows that about half of all policy ideas in the election programmes stemmed directly from the Fundamental Budget Review Reports. Many of the options and measures proposed are now part of the Coalition Agreement of the current government.

It helped that the Fundamental Budget Review had a significant amount of credibility because many of the options and figures were endorsed by the CPB. (It is a tradition in the Netherlands that the CPB tests all election programmes, including impact of the proposed policy measures on economic growth, the budget deficit and employment levels). Another reason why the reports had credibility is that the options did not cater to just one political party; the working groups strived to present different options that could be embraced by a diverse set of political views. This was achieved by the Fundamental Budget Review "code of conduct", stipulating that no idea could be vetoed by any member of the group.

Developments on the revenue side

Tax Agenda

In the Tax Agenda¹⁵ the Dutch government describes its long term policy intentions for the Dutch tax system. The Tax Agenda is based on three main principles; the Dutch tax system will have to be simpler, more robust and more fraud-proof. These three leading principles will all play a major role in future Dutch policymaking in the field of taxation. Although the Tax Agenda does not contain

¹⁴ Energy and climate change; environment; transport and water management; housing; productivity in education; higher education; child benefits; innovation and applied research; income support; unemployment benefits; curative healthcare; long-term health care; official development assistance; immigration, integration and asylum; public safety and terrorism; tax administration; administration of income support; public administration; operational management of government; and defence.

¹⁵ Fiscale Agenda, <http://www.rijksoverheid.nl/documenten-en-publicaties/notas/2011/04/13/fiscale-agenda.html>

a blueprint for a new Dutch tax system, it does include several concrete proposals that will be discussed with parliament the coming period. Apart from that, it will function as a discussion paper.

Five specific themes have been identified in the Tax Agenda, namely:

- 1) shifting from direct to indirect taxation;
- 2) corporate income taxation;
- 3) entrepreneurs (for income tax purposes);
- 4) wage taxation and
- 5) communication between the Dutch Tax Authority and taxpayers.

Shifting from direct to indirect taxation (parliamentary discussion in 2011)

The government wants to discuss with parliament the possibilities of reducing the tax burden on labour and increasing the tax burden on consumption, reducing income taxes and increasing the VAT-rate. Furthermore, the Dutch government would like to abolish a number of small (in terms of total revenues) state taxes. There are several options. As a first step, the Dutch government considers to increase the reduced VAT rate by 2%-points. In the long run, a uniform VAT rate appears to be economically the most efficient option. Nonetheless in the short term, a uniform VAT rate also has several adverse effects (for example, the effect on consumption in Dutch border regions). If parliament regards a uniform VAT-rate as an attractive long term possibility, the Dutch government intends to investigate the border effects as well as the possible redistributive effects of an increase in VAT-revenue and the effect on labour participation.

Corporate income taxation (legislative proposal in 2011)

The Dutch government proposes to tackle two imbalances in the corporate income tax: the tax treatment of the acquisition of Dutch subsidiaries with excessive debt and the import of permanent establishment losses. Without any further measures the corporate income tax revenue would increase. Therefore, the government wants to reduce the corporate income tax rate by 1%-point (to 24%).

Entrepreneurs (for income tax purposes) (legislative proposal in 2011)

Some entrepreneurs experience a high marginal income tax burden, so that an increase in profits, hardly leads to an increase in their net income. The current treatment of entrepreneurs in the income tax could therefore discourage entrepreneurs to expand their businesses. The government intends to change this situation. The government plans to investigate the possibilities for remodeling the tax treatment of entrepreneurs in the income tax. As a first step, the government would convert the degressive allowance for entrepreneurs into a fixed basic allowance for entrepreneurs. Moreover, the profit-related exemption would continue to exist. The high marginal income tax burden will be removed as a result of this first step. This encourages entrepreneurs to expand their business which will be beneficial for the Dutch economy as a whole.

Wage tax (study in 2011)

The government explores a possible introduction of the so-called 'loonsomheffing'. The 'loonsomheffing' in its most extensive form is an adjustment in the wage tax by which the

employer can instantly calculate the tax by using only one rate. The taxable base of such a 'loonsomheffing' would be the cumulated amount of the wages of all employees combined. The taxpayer would still be the employer. By doing this, the government would like to investigate whether it is possible to significantly reduce the administrative burden of the wage tax (and social premiums) for employers.

Communication between the Tax Authority and taxpayers (legislative proposals in 2011 and 2012)

The government will support the use of digital devices, such as a personal web page for individual tax payers. Amendments of the formal tax law will support this development. At the same time, the government will ensure that the services of the Tax Authority are not abused. It will also implement measures to reduce possibilities for tax fraud. Recorded fraud will be punished more firmly.

Chapter 7 Sustainability of public finances

The most recent estimates for the sustainability of the Dutch public finances indicate a significant deterioration caused by the financial crisis. CPB estimates the sustainability gap to have widened to 4.5% of GDP, or €29 billion (from 3% in the previous CPB-estimate). This government is committed to a solid reduction of the sustainability gap. The net effect of the measures of the Coalition Agreement add up to €24.8 billions in structural terms. In terms of the sustainability gap (for instance, taking into account the effect of these measures on structural employment) this package translates to a reduction of the gap by about €24 billion.

The sustainability gap

Reducing the government deficit over the coming years is necessary to bring public finances back to a sustainable path. 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 2040. 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. For the Dutch government improving the sustainability of public finances is a priority to, among other things, reduce the effects of an ageing population. The government is therefore taking major steps to improve the sustainability of public finances.

The most recent estimates for the sustainability of the Dutch public finances indicate a significant deterioration caused by the financial crisis. The European Commission estimates the sustainability gap at 6.9% of GDP in its sustainability report 2009. In March 2010 the CPB published figures for its four-annual estimate of the Dutch sustainability gap, in which the gap was estimated at 4½% of GDP. The government bases its long term sustainability policy on the CPB figures, because these take account of specific Dutch particularities and also include the indirect taxation on pension benefits. For international comparisons, the Commission's figures are however more useful.

In the previous CPB estimate in 2006, the sustainability gap was 3% of GDP. In 2010, the CPB estimated this gap to have widened to 4.5% of GDP. The deterioration is for the largest part attributable to the economic and financial crisis. This is reflected in an increase in the structural deficit by 1¼% GDP compared to the previous study. At the same time, the required structural surplus to reach sustainability increased from 1½% to 1¾% GDP. This increase is the result of a number of factors. Estimates show a larger than expected increase in life expectancy, increasing the required surplus by 1¾%-points. This is offset by ¾%-point because Dutch people are expected to stay healthy longer compared to the previous CPB estimate; by another ½% as a result of sustainability measures taken by the previous government and another ¼% GDP by other factors. Table 7.1 summarises these developments.

Table 7.1 Sustainability gap in 2015

(differences due to rounding)	CPB projections Ageing 2006	CPB projections Ageing 2010	Change
Projected budgetary position no policy change (1)	-1¼ %	-2¾ %	-1½ %
Required sustainable surplus (2)	1½ %	1¾ %	¼ %
Change in required sustainable surplus attributed to:			
• Higher than expected life expectancy			+ 1¾ %
• Better than expected health prospects			- ¾ %
• Sustainability measures taken previous government			-½ %
• Other			- ¼ %
Sustainability gap 2015 (2) – (1)	3 %	4½ %	1½ %

Source: CPB, *Economische Verkenning 2011-2015, March 2010, tables 6.1 and 6.3*

Policy effort

This government is committed to a solid reduction of the sustainability gap. The net effect of the measures of the Coalition Agreement add up to €24.8 billion in structural terms (see Table 1.2). In terms of the sustainability gap (for instance, taking into account the effect of these measures on structural employment) this package translates to a reduction of the gap by about €24 billion.

The government's main contribution to ensuring sustainable public finances are the measures set out in its consolidation package amounting to €18 billion by 2015. As the budgetary tables in Chapter 1 show, key elements of this package include cutting back government tasks and subsidies and reducing administrative burden through a clearer division of responsibilities and powers (€7.5 billion in 2015). Significant savings will also be derived from cuts in income transfers (€4.3 billion). Some of these budget cuts have not reached their structural reduction potential or will continue to be implemented after 2015, implying increased structural savings of €24.8 billion. This is a total net amount, which consists of both expenditure cuts and tax increases. Moreover, to a relatively small extend, this amount also includes expenditure increases/additional investment (see table 1.3 in Chapter 1).

These measures include a reduction in the health care allowance (€2.1 billion in 2015, 2.9 billion structurally), the abolishment of the transferability of the tax credit for non working partners (€0.2 billion in 2015, €1 billion structurally) and reform of instruments aimed at the lower strata of the labour market (€1 billion in 2015, €2.1 billion structurally). However, some policy measures will have an adverse effect on sustainability (in total €3 billion). For example, the government will

earmark more funds for the Exceptional Medical Expenses Act, but since the Exceptional Medical Expenses Act increases in line with the ageing of the population, in the long term this will cost more than the amount that has been reserved for 2015.

As part of the structural package, and in line with the recommendations of the Euro Plus Pact, an important step will be made by raising the retirement age. In any case the retirement age will be raised to 66 in 2020. This will contribute 0.3% GDP to the sustainability of public finances. In addition, the government is currently in consultation with trade unions and employers' organizations to investigate a further increase of the retirement age after 2020 by linking the retirement age to life expectancy. If such an agreement is reached, thus making the step to 67 in 2025 and perhaps another one year increase in 2030, the contribution to sustainability will be about twice as big as is the case with the baseline of 66 in 2020. In either case, in line with the raising of the retirement age, the framework for fiscal subsidies to second and third pillar pensions ('Witteveen-kader') will be adapted, such that the same yearly pension can be achieved as currently, albeit that one needs to work longer and the pension starts later, in line with the number of years that the statutory age is increased.

The agreement will also improve employment opportunities in the long term, partly due to tax measures and a number of measures in the educational sector. This is beneficial for the sustainability of public finances (further 0.3% of GDP or €2 billion), as it will broaden the tax base.

On balance, the overall reduction of the sustainability gap will amount to €24 billion of the €29 billion that are required for the sustainability of Dutch public finances, according to the CPB report. In summary, and as shown in table 7.2, this 24 billion sustainability effort is composed of the €18 billion impact of the coalition agreement in 2015, plus the additional structural effect of €7 billion after 2015 (including raising the retirement age, in total €24.8 billion Euro of structural measures) minus the negative sustainability effect of €3 billion, plus the positive effect on structural employment (€2 billion).

Table 7.2 The sustainability effect of the Coalition agreement (billion euro).

Reduction of the sustainability gap		24		
(i) Structural net savings in 2015			18	
(ii) (further) structural net savings after 2015			7	
	Raising of the retirement age			2
	Reduction health care allowance			0.9
	Abolishing tax credit for non working partners			0.8
	Reforming labour market instruments			1.1
	Other			2.2
(iii) Negative sustainability effect of certain policy measures after 2015, amongst which the Exceptional Medical Expenditure Act			-3	
(iv) Structural effect on employment of certain policy measures after 2015			2	

The structural effects of the measures taken by the government are endorsed by the CPB. The CPB shows that the structural effect of the measures taken by both the caretaker government and the new government amount to €22 billion.¹⁶ The difference between this €22 billion and the aforementioned €24 billion is the €2 billion that will be raised structurally by increasing the retirement age to 66 in 2020. According to CPB rules, this structural gain cannot yet be attributed to the policy effort of the current government, as this particular measure will enter into force only after this government's term. The CPB however does recognize the fact that raising the retirement age to 66 will lead to a structural gain for public finances of €2 billion. The structural effects of all measures taken by the government can be found in the financial chapter of the Parliamentary Support Agreement.¹⁷

¹⁶ Source: CPB notitie, Analyse economische effecten financieel kader, 27 September 2010, pp. 17-20.

¹⁷ Gedoogakkoord VVD-PVV-CDA. Bijlage II, begrotingsbeleid. 30 September 2010.

Chapter 8 Institutional features of public finances

The new government continues the trend-based budgetary policy. A few new elements have been introduced. A new act to implement EU fiscal rules in national legislation is being prepared.

Implementation of national budgetary rules

A set of budgetary rules for the period 2011 - 2015

In October 2010 the new government endorsed a set of budgetary rules 2011 – 2015 in its constitutional meeting. In the Netherlands the government commits itself to budgetary rules at the beginning of the term of office to enable the government to conduct a sound fiscal policy. The objective of the budgetary rules is to achieve an efficient allocation of funds and control the public finances. The budgetary rules provide the coalition government the tools needed to prevent undesirable developments in the general government deficit and the general government debt, i.e. to prevent (or curb) exceeding the reference values laid down in the EU Treaty (a maximum of 3% of GDP for the general government deficit and a maximum of 60% of GDP for the general government debt) and to respect the Medium-Term Objective for the Netherlands resulting from the Stability and Growth Pact.

Trend-based budgetary policy continued

The important principles of the trend-based budgetary policy – as introduced in the mid nineties of the previous century - remain unchanged for the period 2011 – 2015:

- A strict separation between revenue and expenditure. Revenue windfalls cannot be used to finance additional expenditures.
- A distinction is made between three expenditure sectors (the central government in a narrow sense, Social Security and the labour market and Health Care).
- A real expenditure ceiling is specified for each of the three expenditure sectors.
- Each sector shall compensate any over expenditure within the relevant sector's expenditure framework.
- A real revenue framework is specified for revenues and the principle of automatic stabilisation applies.
- A one-decision-making moment on the new budget in the Spring

New elements in the budgetary rules

The Coalition Agreement and the Parliamentary Support Agreement have opted for a more stringent budgetary policy in accordance with the recommendations of the thirteenth report of the Budget Margin Study Group. The set of budgetary rules is based on the common rules governing expenditure and revenue as adopted in the past, enhanced by a few new rules that help to further ensure the realisation of the budgetary consolidation effort over the coming years. The new rules relate to:

- The adoption of a warning margin. This is specified as a downward deviation of 1 percentage point relative to the path for the general government deficit adopted at the beginning of the

term of office. If the warning margin is exceeded, additional consolidation measures have to be taken;

- The return of expenditures sensitive to cyclical trends - (unemployment benefits, social assistance benefits and movements in the terms of trade) within the expenditure ceiling frameworks. The previous government had excluded these items from the ceilings due to the economic crisis;
- The return of interest payments under the expenditure ceilings by the adoption of an interest windfall formula;
- The rule that spending overruns should be compensated 'specific', i.e. compensation should be delivered in the scheme involved or in the budget, has been broadened. General compensation – being is the opposite of specific compensation - is limited to changes in the yield on government assets (e.g. interest, lease and dividend).
- The implementation of a more stringent policy on budgetary risks involved with loans and guarantees;
- A windfall formula for tax relief, but only in the event that the Netherlands complies with (1) the Medium-Term Objective of the Netherlands and when (2) the Netherlands records a multiyear general government surplus.

Both the most important principles of the Dutch trend-based budgetary policy and the most important new budgetary rules adopted by new government are worked out below.

Key elements from the budgetary rules: general rules, rules for the expenditure and rules for the revenue

General rules

The budgetary rules are based on a strict separation of expenditure and revenue during the government's term in office and the windfall formula

This rule implies that the expenditure side of the budget is governed by a real expenditure framework. The relevant expenditure shall need to remain within this framework during the government's term of office. During a government's term of office increases in expenditure must be covered by cuts for all years included in the multiyear figures. A real revenue framework governs the revenue side and the principle of automatic stabilisation applies on the revenue side. Revenue windfalls are credited to the general government deficit, revenue setbacks are debited to the general government deficit. There is an exception to this rule, i.e. the windfall formula. When the Netherlands complies with the medium-term objective (MTO) as specified in the Stability and Growth Pact and the actual government balance shows a multiyear surplus at the time of the budgetary decision-making on the revenue side in August then 50 percent of the surplus shall be allocated to the repayment of the national debt. In addition, the burden of taxation and social security contributions shall be reduced by 50% of the surplus in excess of 0 percent of GDP. The actual multiannual EMU surplus shall be calculated taking into account the possible reduction in tax rates (so that the multiannual government balance will still show a surplus after the possible tax reduction), and shall moreover take account of a prudent estimate of the deficit of the local government.

One decision-making moment

The government makes an integral decision on the outlines of the expenditure and revenue sides of the budget for both the current year and the next budget year at one moment in each year. This contributes to the predictability and stability of the budgetary framework. This decision-making moment is the Spring. Decision-making on purchasing power and the revenue side of the budget takes place in each August.

A warning margin is adopted. This is specified as a downward deviation of 1 percentage point relative to the path for the general government deficit resulting from the calculation of the effects of the Coalition Agreement

Additional interventions will be required if the general government deficit does not develop in line with the budgetary objectives of the Stability and Growth Pact, including the Medium-Term Objective. The warning margin is exceeded when the estimate of the actual general government deficit as based on the CPB's Central Economic Plan for the coming year (t+1) shows a downward deviation of more than 1 percentage point compared to the intended path of the general government deficit after the calculation of the effects of the Coalition Agreement. When exceeding the warning margin, corrective measures will need to be implemented to regain sight of the intended general government deficit at the end of the government's term of office, which corresponds to achieving the Medium-Term Objective in 2015.

Sanctions for local governments

When the general government deficit of the local authorities contributes to the (threat of a) breaching the requirement of the Stability and Growth Pact for the government balance¹⁸ the Minister of Finance can intervene, but only if the regular administrative consultations on financial relations between the State, Association of Netherlands Municipalities, Interprovincial Consultations and Association of Waterboards fail to produce the desired result. The Minister of Finance can, as an ultimate remedy, impose a discount on the municipal and/or provincial funds.

Rules governing expenditure and non-tax receipts

The expenditure framework is adopted on the basis of the principle that expenditures that are taken into account in the government balance, are also taken into account in the expenditure falling under the expenditure framework. Compensation between the individual budget discipline sectors is possible only in exceptional circumstances. A decision by the Council of Ministers is required. These rules are also applied to the individual budgets and the associated multiyear figures of the national budget in the narrow sense.

The threat of over expenditure shall be avoided whenever possible by the implementation of appropriate and timely measures. The Minister of Finance is notified of any under expenditure or over expenditure, irrespective of the cause or reason, in writing and as soon as possible. This rule

¹⁸ This is applicable to the limits of an excessive deficit procedure, where relevant, but also to the regular limits as laid down in the Stability and Growth Pact.

is also applicable to policy initiatives causing an increase or reduction of expenses, participation in European policy, or issues governed by prior supervision.

Spending room in the expenditure framework resulting from (temporary) windfalls due to a more favourable macro-economic development (such as a lower volume of social security benefits or a terms of trade gain) may not be allocated in a structural manner.

Interest expenses windfall formula

Interest expenses are again included in the expenditure framework. To ensure that interest expenses windfalls do not result in extra expenditure but result in the repayment of the national debt, the expenditure framework will be corrected (reduced) during the government's term of office by the amount that the interest expenses are lower than the original estimate of the interest expenditure (at the beginning of the government's term of office). Higher than expected interest expenses will also need to be absorbed within the expenditure ceilings.

Treatment of Interventions in the Financial Sector and in the euro zone

All the costs of and revenues from interventions in the financial sector with the objective of maintaining the stability of the financial system are not of relevance to the expenditure framework. Nor are the costs of and revenues from measures implemented with a view to the financial stability of the euro zone of relevance to the expenditure framework. This is also applicable to guarantee premiums and potential compensation pursuant to the guarantee schemes for the issue of medium-term debt instruments by banks. As a result, all costs of and revenues from interventions in the financial sector are credited or debited directly to the national debt.

Managing risks of loans and guarantees

Guarantees and loans are issued solely when the State attaches importance to bearing risks that cannot be borne in the market, or when the State realises efficiency benefits. An assessment framework and an insurance model shall be applied to any new guarantee schemes or to modifications of existing schemes. Important elements of the insurance model are¹⁹:

- The risks associated with guarantees and loans must be determined. The rule of thumb for pricing the risks is that the pricing should cover at least the associated costs (including implementation costs). The regulations stipulate that the annual premium must be priced at 3% of the maximum exposure resulting from the proposed scheme, unless the specification of a different premium can be justified;
- All premium receipts are credited to the general budget. The Minister of Finance determines the premium to be transferred to the general budget after consultation with the relevant ministry. The relevant ministry is responsible for the premium charged to the end user. This is an element of the regular budgetary decision-making. Compensation is paid from the general budget. An excess is applicable to compensation. The relevant ministry must absorb this excess by means of specific compensation.

¹⁹ See the National Budget Regulations for a comprehensive description and supplementary regulations.

All guarantee schemes are subject to prior supervision by the Minister of Finance. New guarantees and loans/loan schemes, as well as modifications of existing schemes, are always an element of the Council of Ministers' decision-making, in principle at the main yearly budgetary decision-making moment. All guarantee schemes are subject to a periodic assessment. The objectives of this assessment are to review the need and value of the scheme (reassessment) and to update the quantification of the risks and pricing (revaluation).

Rules governing revenue

The revenue indicator is defined as the budgetary effect of each amendment of existing government policy on the government income of relevance to the government balance. The revenue framework is adopted in the Coalition Agreement. The development of the revenue indicator must be equal to the revenue framework during the government's term of office. Temporary deviations from the revenue framework must be avoided whenever possible. Deviations from the revenue framework are permitted in the event that setbacks result in a threat of the transgression of the government balance warning margin (see above). Corrective measures will then have to be taken.

Rules governing tax expenditure

A restrictive assessment framework as laid down in the National Budget Regulations governs the introduction of new or increased tax expenditure and the evaluation of these schemes. The assessment framework can be used to assess whether preference should be given to (the expansion of) a tax measure. A specification of the budgetary burden imposed by tax expenditure and of the owner-occupied home and pension revenue-reducing schemes is included in the annex to the yearly Budget Memorandum. The budgetary burden imposed by tax expenditure is also set against the developments forecast at the beginning of the government's term of office. Substantial upward deviations of the endogenous development as compared to the developments forecasted at the beginning of the government's term of office, can result in the implementation of corrective measures.

Budgetary procedures, incl. public finance statistical governance

The existence of independent organizations in the field of (economic) forecasts 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 independent 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 almost all macroeconomic statistics in the Netherlands. 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. Data of past years in the excessive deficit procedure are produced by statistics Netherlands. Data for 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. Since 2005 the cooperation between Statistics Netherlands and the Ministry of Finance concluded has been laid down in a cooperation agreement.

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 Netherlands²⁰. According to this report, one of the outstanding features was the Netherlands Bureau for Economic Policy Analysis' unique role in the policy making process owing to its technical reputation and its independence. The CPB provides the economic outlook as well as its own budgetary outlook. The economic outlook is independent and unbiased input into the budget making process, while the budgetary outlook provides an independent second opinion on the government's budgetary and institutional measures. Moreover, the Netherlands Bureau for Economic Policy Analysis performs cost-benefit calculations of public investment projects. The IMF concluded: "The 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."

Other institutional developments in relation to public finances

As recommended in the Euro Plus Pact that was agreed on March 25 by the European Council, the government is working on draft legislation that will translate the EU fiscal rules as set out in the Stability and Growth Pact into national legislation. The purpose of this exercise will be twofold. First and foremost, the requirements stemming from the Stability and Growth Pact, both in the preventive as well as the corrective arm, will be anchored in national legislation. Second, the broad principles of Dutch budgetary policy will, for the first time, be anchored in this piece of legislation as well.

Major progress has also been made in the field of information and reporting requirements by local governments, including the introduction of a sanction mechanism. Moreover an agreement is about to be reached between the central and local governments on research on the share of each government layer in the total amount of the EMU-deficit and on the procedure to be followed in the case of (avoiding) an EMU-deficit exceeding 3% GDP. The inclusion of these agreements between the central government and the local governments into the aforementioned piece of legislation shall be considered.

The aim of the government is to present this law to parliament already in September 2011, together with the 2012 Budget Memorandum. However, this will, amongst others, depend on a swift agreement between the Council and the European Parliament on the governance package, which includes an amended Stability and Growth Pact and a Directive containing minimum

²⁰ IMF(2006), "The Netherlands - Report on the Observance of Standards and Codes – Fiscal Transparency Module"

requirements in the field of national budgetary frameworks. Currently, agreement between the Council and European Parliament is foreseen by the end of June 2011.

ANNEX Tables²¹

Table A.1 Macroeconomic prospects

	ESA Code	2010	2010	2011	2012	2013	2014	2015
		Level (billion €)	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
Real GDP	B1*g	590.1	1.7	1¾	1½	1¼	1¼	1¼
Nominal GDP (€ billion)	B1*g	590.1	3.2	3¼	3¾	3	3	3
Components of real GDP								
Private consumption expenditure	P.3	266.9	0.4	¾	1	¾	¾	¾
Government expenditure	P.3	167.8	1.5	0	0	¼	¼	¼
Gross fixed capital formation	P.51	104.8	-4.9	2½	3	3¾	3¾	3¾
Changes in inventories (Δ)	P.52+ P.53	2.2	1	0	0	0	0	0
Exports of goods and services	P.6	463.3	10.8	5½	4	4½	4½	4½
Imports of goods and services	P.7	415	10.5	5	3¾	4¾	4¾	4¾
Contributions to real GDP growth								
Final domestic demand		541.7	-0.3	1	1	1	1	1
Changes in inventories (Δ)	P.52+ P.53	2.2	1	0	0	0	0	0
External balance of goods and services	B.11	48.4	1	¾	½	¼	¼	¼

Table A.1b Price developments

	ESA Code	2010	2010	2011	2012	2013	2014	2015
		level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
GDP deflator		100	1.4	1½	2¼	1¾	1¾	1¾
Private consumption deflator		100	1.2	2	2¼	2	2	2
HICP		100	0.9	2	2	2	2	2
Public consumption deflator		100	1.6	1½	3	3	3	3
Investment deflator		100	1.2	1½	1¾	1½	1½	1½
Export price deflator		100	5.6	3½	½	-½	-½	-½
Import price deflator		100	5.9	4	½	-½	-½	-½

²¹ Please be aware that tables present rounded figures. In some cases the sums of lines may therefore deviate from the individual lines due to rounding off.

Table A.1c Labour market developments

	ESA Code	2010	2010	2011	2012	2013	2014	2015
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
Employment (x thousand persons)		8358	-1	1	1	-¼	-¼	-¼
Employment (billion hours worked) ²²		11.6	-0.7	¾	¾	-¼	-¼	-¼
Unemployment rate (% of labour force)		390 (x thousand persons)	4.5	4¼	4	4¼	4¾	5
Labour productivity (persons)		63.1	3.1	¾	½	1½	1½	1½
Labour productivity, hours worked		78.9	2.8	1	¾	1½	1½	1½
Compensation of employees	D.1	300	0.8	3¼	4	3¼	3¼	3¼
Compensation per employee		36	1.6	2¾	3½	3½	3½	3½

Table A.1d Sectoral balances

% of GDP	ESA Code	2010	2011	2012	2013	2014	2015
Net lending/borrowing vis-a-vis the rest of the world	B.9	6.7	7.5	8.1	9.5	9.5	9.5
<i>Of which</i>							
- Balance on goods and services		8.2	8.7	9.0	9.8	9.8	9.8
- Balance of primary incomes and transfers		-0.2	0.2	0.5	0	0	0
- Capital account		-1.3	-1.3	-1.4	-0.3	-0.3	-0.3
Net lending/borrowing of the private sector		11.9	11.2	10.3	11	11	11
Net lending/borrowing of general government		-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
Statistical discrepancy		0.2	0.0	0.0	0.0	0.0	0.0

²² Based on hours worked in employment contracts.

Table A.2 General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year	Year	Year
		2010	2010	2011	2012	2013	2014	2015
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by subsector								
1. General government	S.13	-31.979	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
2. Central government	S.1311	-25.224	-4.3	-2.2	-1.2	-0.4	-0.1	0.3
3. State government	S.1312	-27.355	-4.6	-2.2	-1.2	-0.4	-0.1	0.3
4. Local government	S.1313	-4.651	-0.8	-0.7	-0.7	-0.5	-0.4	-0.3
5. Social security funds	S.1314	-2.104	-0.4	-0.7	-0.3	-0.9	-0.9	-0.9
General government (S13)								
6. Total revenue	TR	264.619	44.8	45.3	46.0	45.9	46.3	46.8
7. Total expenditure	TE ¹	296.598	50.2	49.0	48.3	47.7	47.6	47.6
8. Net lending/borrowing	EDP B.9	-31.979	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
9. Interest expenditure	EDP D.41	11.738	2.0	2.2	2.3	2.6	2.8	2.7
10. Primary balance²		-20.241	-3.4	-1.5	0.1	0.8	1.4	1.8
11. One-off and other temporary measures³		-928	-0.2	0.0	0.0	0.0	0.0	0.0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		142.615	24.2	23.8	23.8	24.2	24.5	24.6
12a. Taxes on production and imports	D.2	70.894	12.0	11.8	11.8	11.5	11.4	11.4
12b. Current taxes on income, wealth, etc	D.5	69.940	11.9	11.7	11.8	12.4	12.7	12.8
12c. Capital taxes	D.91	1.721	0.3	0.3	0.3	0.3	0.4	0.4
13. Social contributions	D.61	87.324	14.8	15.7	16.2	15.6	15.6	15.9
14. Property income	D.4	15.886	2.7	2.6	2.7	2.8	2.8	2.8
15. Other⁴		18.794	3.2	3.2	3.3	3.3	3.4	3.4
16=6. Total revenue	TR	264.619	44.8	45.3	46.0	45.9	46.3	46.8
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)⁵		227.566	38.6	39.0	39.6	39.4	39.8	40.2
17. Compensation of employees + intermediate consumption	D.1+P.2	107.134	18.2	17.7	17.3	16.5	16.0	15.8
17a. Compensation of employees	D.1	58.988	10.0	9.7	9.5	9.2	9.0	8.8
17b. Intermediate consumption	P.2	48.146	8.2	8.0	7.7	7.3	7.0	6.9
18. Social payments (18=18a+18b)		134.579	22.8	22.7	22.8	22.5	22.7	23.1
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	65.745	11.1	11.0	11.2	11.3	11.4	11.7

18b. Social transfers other than in kind	D.62	68.834	11.7	11.7	11.6	11.3	11.3	11.4
19=9. Interest expenditure	EDP D.41	11.738	2.0	2.2	2.3	2.6	2.8	2.7
20. Subsidies	D.3	8.868	1.5	1.4	1.3	1.2	1.2	1.2
21. Gross fixed capital formation	P.51	21.390	3.6	3.6	3.4	3.4	3.2	3.1
22. Other⁶		11.445	1.9	1.5	1.2	1.4	1.6	1.7
23=7. Total expenditure	TE ¹	296.598	50.2	49.0	48.3	47.7	47.6	47.6
p.m.: Government consumption (nominal)	P.3	167.693	28.4	27.9	27.7	27.1	27.0	27.2

¹Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

²The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

³A plus sign means deficit-reducing one-off measures.

⁴P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

⁵Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

⁶D.29+D4 (not equal to D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table A.3 General government expenditure by function

% of GDP	COFOG Code	Year 2009	Year 2015
1. General public services	1	11.6	9.2
2. Defence	2	1.3	1.0
3. Public order and safety	3	2.0	1.8
4. Economic affairs	4	4.5	4.2
5. Environmental protection	5	0.9	1.0
6. Housing and community amenities	6	0.9	1.2
7. Health	7	9.7	10.7
8. Recreation, culture and religion	8	1.3	1.1
9. Education	9	5.5	5.3
10. Social protection	10	12.5	12.1
11. Total expenditure (=item 7=23 in Table 2)	TE ¹	50.2	47.6

¹Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table A.4 General government debt developments

% of GDP	ESA Code	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
1. Gross debt¹		62.7	64.5	64.9	64.7	64.1	63.0
2. Change in gross debt ratio		1.9	1.8	0.4	-0.2	-0.6	-1.1
Contributions to changes in gross debt							
3. Primary balance²		-3.4	-1.5	0.1	0.8	1.4	1.8
4. Interest expenditure³	EDP D.41	2.0	2.2	2.3	2.6	2.8	2.7
5. Stock-flow adjustment		3.3	1.1	-2.0	-3.6	-4.8	-5.6
<i>of which:</i>							
- Differences between cash and accruals ⁴		0.0	0.2	-0.1	0.0	0.0	0.0
- Net accumulation of financial assets ⁵		5.4	2.8	0.4	-1.5	-2.9	-3.8
<i>of which:</i>							
- privatisation proceeds		-0.1	0.0	0.0	0.0	0.0	0.0
- Valuation effects and other ⁶		-2.0	-1.9	-2.3	-2.1	-1.9	-1.8
p.m.: Implicit interest rate on debt⁷		3.0	3.5	4.0	4.1	4.2	4.2
Other relevant variables							
6. Liquid financial assets ⁸		NA	NA	NA	NA	NA	NA
7. Net financial debt (7=1-6)		NA	NA	NA	NA	NA	NA

¹As defined in Regulation 3605/93 (not an ESA concept).

²Cf. item 10 in Table 2.

³Cf. item 9 in Table 2.

⁴The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

⁵Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

⁶Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

⁷Proxied by interest expenditure divided by the debt level of the previous year.

⁸AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table A.5 Cyclical developments

	ESA Code	2010	2011	2012	2013	2014	2015
1. Real GDP growth		1.7	1¾	1½	1¼	1¼	1¼
2. Net lending of general government	B.9	-5.4	-3.7	-2.2	-1.8	-1.4	-0.9
3. Interest expenditure	EDP D.41+ FISIM	2.0	2.2	2.3	2.6	2.8	2.7
4. One-off and other temporary measures		-0.2	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth		2	1.5	1.5	1.5	1.5	1.5
<i>Contributions to growth:</i>							
- Labour		0.4	0	0	0	0	0
- Capital		0.7	0.5	0.5	0.5	0.5	0.5
- Total factor productivity		0.9	1	1	1	1	1
6. Output gap (EC method) ²³		-1.9	-1.4	-0.9	-0.7	-0.6	-0.7
7. Cyclical budgetary component		-1.1	-0.7	-0.5	-0.4	-0.3	-0.4
8. Cyclically-adjusted balance (2-7)		-4.3	-2.9	-1.8	-1.3	-1.1	-0.5
9. Cyclically-adjusted primary balance (8+3)		-2.3	-0.7	0.5	1.3	1.7	2.2
10. Structural balance (8 - 4)		-4.2	-2.9	-1.8	-1.3	-1.1	-0.5

Table A.6 Divergence from previous update²⁴

	ESA Code	2010	2011	2012	2013	2014
Real GDP growth (%)						
Previous update		1.5	2.0	2.0	NA	NA
Current update		1.7	1¾	1½	1¼	1¼
Difference		0.2	-¼	-½	NA	NA
General government net lending (% of GDP)						
Previous update	EDP B.9	-6.1	-5.0	-4.5	NA	NA
Current update		-5.4	-3.7	-2.2	-1.8	-1.4
Difference		0.7	1.3	2.3	NA	NA
General government gross debt (% of GDP)						
Previous update		58.2	62.2	67.4	NA	NA
Current update		62.7	64.5	64.9	64.7	64.1
Difference		3.5	2.3	-2.5	NA	NA

²³ Please note that for comparability reasons the reported output gap is based on the EC method. As can be seen from the table, this development of the output gap is not consistent with the macro economic outlook provided, which is based on a different (CPB) method. In particular, whilst the output gap based on the EC method shows a decreasing development, the output gap based on the CPB method shows an increasing trend (from -1.5 in 2011 to -2.1 in 2015; see *Actualisatie Economische Verkenning 2011-2015, p.12., November 2010*). This is due to the fact that the EC method is based on a significantly lower potential growth of just above 1%, in contrast to the reported potential growth of 1.5% by the CPB.

²⁴ Please note that the 2010 Stability Programme only covered the period 2008-2012, i.e. that comparison with 2013 and 2014 is not possible.

Table A.7 Sustainability of public finances²⁵

% of GDP	2005	2010	2020	2030	2050
Total expenditure*	44.8	51.0	50.1	53.8	58.8
<i>Of which:</i>					
age related expenditure	19.9	22.2	23.8	27.2	29.7
Pension expenditures	6.9	6.9	7.7	9.3	9.8
Social security expenditures	1.7	1.5	1.5	1.5	1.5
Old-age and early pensions	4.6	4.9	6.0	7.6	8.1
Other pensions (disability, survivors)	2.3	2.0	1.7	1.7	1.7
Occupational pensions	4.6	5.0	5.4	6.2	6.8
Health care	4.8	5.7	6.4	7.1	7.4
Long-term care	3.4	4.0	4.5	5.6	7.1
Education expenditure	4.8	5.6	5.2	5.2	5.4
Other age-related expenditure	0	0	0	0	0
Interest rate expenditure	2.4	2.3	2.9	3.2	5.9
Total revenue*	44.5	44.7	47.4	48.1	48.4
<i>Of which: property income</i>	2.3	2.8	2.8	1.8	1.4
<i>Of which: from pensions contributions</i>	4.0	5.3	5.8	6.0	5.6
Pension reserve fund assets	145	135	147	171	194
<i>Of which: consolidated public pension fund assets</i>	0	0	0	0	0
Assumptions					
Labour productivity growth	0.8	1.7	1.7	1.7	1.7
Real GDP growth	1.4	1.7	1.5	1.2	1.5
Participation rate males (aged 15 -64)	84.0	83.9	82.6	82.1	82.5
Participation rate females (aged 15 - 64)	70.1	73.6	76.3	77.2	78.2
Total participation rates (aged 15 - 64)	77.1	78.8	79.5	79.7	80.4
Unemployment rate	3.5	3.0	3.0	3.0	3.0
Population aged 65+ over total population (%)	14.0	15.7	20.3	24.2	25.4

* These figures are based on a recent study of CPB Netherlands Bureau for Economic Policy Analysis that assesses the long term sustainability of Dutch public finances. The study was published in June 2010. It can be referred to as: Van der Horst, A., L. Bettendorf, N. Draper, C. van Ewijk, R. de Mooij and H. ter Rele, 2010, Vergrijzing Verdeeld, The Hague.

²⁵ 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.

Table A.8 External assumptions

	2010	2011	2012	2013	2014	2015
Short-term interest rate (annual average)	0.8	1¼	2	2½	3	3¼
Long-term interest rate (annual average)	3.0	3½	4	4¼	4¼	4½
USD/€ exchange rate (annual average)	1.33	1.34	1.34	1.35	1.35	1.35
Nominal effective exchange rate (Euro area)	-6.7	1.0	0.5	0.5	0.5	0.5
World GDP growth	4.8	4	4.1	4.1	4.1	4.1
EU GDP growth	1.7	1¾	2	2	2	2
World GDP growth excluding EU	5.6	4.6	4.7	4.7	4.7	4.7
Growth of relevant foreign markets	11.2	6¼	5	6	6	6
World import volumes, excluding EU	13.0	8.3	7.9	7.9	7.9	7.9
Oil prices (Brent. USD per barrel)	79½	97¼	97¼	81	81	81