COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.5.2004
SEC(2004) 625 final

Recommendation for a

COUNCIL DECISION

on the existence of an excessive deficit in the Netherlands

(presented by the Commission)

EXPLANATORY MEMORANDUM

On 7 April 2004, the Commission published its Spring 2004 forecasts.[1] According to these forecasts, which took into consideration data reported by the Dutch Authorities on 31 March 2004, the general government deficit in 2003 reached 3.2% of GDP in 2003, thus exceeding the 3% of GDP Treaty reference value, and increased substantially relative to the 2002 deficit (1.9% of GDP). Based on this prima facie evidence, the Commission initiated the Excessive Deficit Procedure for the Netherlands on 28 April 2004, with the adoption of the report as foreseen in Article 104(3) of the Treaty.[2]

The application of the excessive deficit procedure (EDP) is governed by Article 104 of the Treaty and by Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure", which is part of the Stability and Growth Pact.[3]

The Commission report according to Article 104(3) of the Treaty concluded that the excess of the 3.2% of GDP deficit in 2003 over the 3% of GDP Treaty reference value did not result, in the sense of the Stability and Growth Pact, from an unusual event outside the control of the Dutch authorities, nor was it the result of a severe economic downturn, which is defined in the Pact as an annual fall of real GDP of at least 2%. However, it occurred in a context of strongly negative growth, with real GDP growth at -0.7% in 2003, and a negative output gap of around 2% of GDP emerging. This largely explains the deterioration in the general government balance, which was further aggravated by a greater-than-expected weakening in receipts and higher-than-expected local government deficits while expenditure targets were largely met. Concerning developments in 2004, the Commission Spring forecast projects a general government deficit of 3.5% of GDP. After the publication of the Commission Spring forecast, the government adopted additional savings measures on 16 April 2004, equivalent to 0.6 % of GDP, with the objective of reducing the deficit to below 3% of GDP again in 2004, in line with the achievement in earlier years. According to the Commission report the achievement of this objective depends on the measures yielding the expected results and on not having second-round effects on economic activity and the budgetary outcome. Hence, there is a likelihood that the deficit could remain at or just above the 3% of GDP reference value in 2004.

The Commission report, based on the Commission Spring forecasts, also concluded that the debt-to-GDP ratio reached 54.8% of GDP in 2003, below the 60% reference value of the Treaty. Moreover, it noted that the Commission projects the debt ratio to reach 56.3 % of GDP in 2004, which is above the 54.5 % of GDP projected by the Dutch authorities in the 2003 stability programme update but below the reference value of 60% of GDP.

Article 104(4) of the Treaty states that "the Committee provided for in Article 114 (i.e. the Economic and Financial Committee) shall formulate an opinion on the report of the Commission". The Committee issued its opinion on 12 May 2004, subscribing to the assessment made by the Commission in its report. In particular, the EFC concluded that in

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[1] The Commission Spring 2004 forecast is available at the following website: http://europa.eu.int/comm/economy_finance/publications/european_economy/2004/ee204en.pdf.

[2] The full text of this report is available at the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/country/edp/edprep2004_nl.pdf.

[3] OJ L 209, 2.8.1997.

2003 the Netherlands did not comply with budgetary discipline regarding the deficit as defined in Article 104 of the Treaty, which suggests that an excessive deficit exists in the Netherlands.

The EFC also considered that there is a likelihood that the general government deficit may remain at or just above the Treaty's reference value again in 2004, despite additional measures decided by the Dutch authorities, while the general government gross debt ratio would remain below the Treaty's reference value of 60 % of GDP in 2004.

The Commission, having examined all the relevant factors taken into account in its report and having regard to the opinion of the EFC, is of the opinion that an excessive deficit exists in the Netherlands. This opinion, adopted by the Commission on 19 May 2004, has been addressed to the Council, according to Article 104(5) of the Treaty. The Commission recommends that the Council shall decide accordingly, in conformity with Article 104(6) and herewith addresses a recommendation for a decision to that effect. In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to the Netherlands with a view to bringing the situation of an excessive deficit to an end, according to Article 104(7) of the Treaty.

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THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by the Netherlands,

Whereas:

(1) According to Article 104 of the Treaty Member States are to avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) The excessive deficit procedure under Article 104 provides for a decision on the existence of an excessive deficit; whereas the Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 3605/93[4] amended by Council Regulation (EC) No 475/2000[5] and by Commission Regulation (EC) No 351/2002[6] lay down detailed rules and definitions for the application of the provision of the said Protocol.

(4) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. The Commission has addressed such an opinion on the Netherlands to the Council on 19 May 2004.Having examined all relevant factors taken into account in its report in accordance with Article 104(3) and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4), the Commission concluded in its opinion (19 May 2004) that there exists an excessive deficit in the Netherlands.

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[4] OJ L 332, 31.12.1993, p. 7.
[5] OJ L 58, 3.3.2000, p. 1.
[6] OJ L 55, 26.2.2002 p. 23.

(5) Article 104(6) of the Treaty lays down that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists.

(6) The overall assessment leads to the conclusion that the general government deficit reached 3.2% of GDP in 2003 in the Netherlands and that the breach of the 3% of GDP Treaty reference value occurred in spite of substantial savings measures by the authorities. According to the Commission, the breach of the 3% of GDP threshold in 2003 is mainly due to the impact of the economic slowdown. However, the excess of the general government deficit over the 3% of GDP reference value does not result from an unusual event outside the control of the Dutch authorities, nor is it the result of a severe economic downturn in the sense of the Stability and Growth Pact, which is defined as a fall in real GDP of at least 2%. Even after taking into account the additional measures decided by the authorities on 16 April 2004, which were not included in the Commission Spring 2004 forecast, there is a likelihood that the general government deficit could be above 3% of GDP also in 2004. This suggests that the breach of the 3% of GDP Treaty reference value for the deficit may not be temporary. Finally, the debt ratio, which is projected to reach 56.3% of GDP in 2004 according to the Commission Spring forecast, will continue to be below the 60% of GDP Treaty reference value in that year.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in the Netherlands.

Article 2

This decision is addressed to the Kingdom of the Netherlands.

Done at Brussels, 19 May 2004.

For the Council
The President
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