COUNCIL OF
THE EUROPEAN UNION

Brussels, 30 November 2009
(OR. en)

15758/09

LIMITE

ECOFIN 769
UEM 295

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject:	COUNCIL RECOMMENDATION to the Netherlands with a view to bringing an end to the situation of an excessive government deficit

COUNCIL RECOMMENDATION

of

to the Netherlands

with a view to bringing an end to the situation
of an excessive government deficit

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(7) in conjunction with Article 126(13) and Article 136 thereof;

Having regard to the recommendation from the Commission;

Whereas:

(1) According to Article 126(1) of the Treaty Member States shall 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 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run. It aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the excessive deficit procedure (EDP). In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

(4) The Council decided on 2 December 2009, in accordance with Article 126(6) of the Treaty, that an excessive deficit exists in the Netherlands.

(5) The Council agreed on 20 October 2009 that, provided that the Commission forecasts continue to indicate that the recovery is strengthening and becoming self-sustaining, fiscal consolidation in all EU Member States should start in 2011 at the latest, that specificities of country situations should be taken into account, and that a number of countries need to consolidate before then.

(6) In accordance with Article 126(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[1] (which is part of the Stability and Growth Pact), the Council is also required to make recommendations to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. The Recommendation has to establish a deadline of six months at the most for effective action to be taken by the Member State concerned to correct the excessive deficit as well as a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances. In deciding whether special circumstances exist, "relevant factors" as clarified in Article 2(3) of Regulation (EC) No 1467/97 should be taken into account. Furthermore, in a recommendation to correct an excessive deficit the Council should request the achievement of a minimum annual improvement in the structural balance, i.e. the cyclically-adjusted balance excluding one-off and other temporary measures, of at least 0,5 % of GDP as a benchmark.

[1] OJ L 209, 2.8.1997, p. 6.

(7) Special circumstances, which are relevant for the greater flexibility in the application of the EDP introduced with the 2005 reform of the Stability and Growth Pact, are deemed to exist in the case of the Netherlands. In particular, the global financial crisis affected the Dutch economy significantly. Starting in the second quarter of 2008, the Netherlands recorded five quarters of negative quarter on quarter GDP growth. According to the Commission services' 2009 autumn forecast, the downturn is concentrated in 2009, with an expected contraction of economic activity of 4,5 %, although growth is foreseen to remain subdued in 2010 with ¼ % GDP growth, followed by 1½ % in 2011. The downturn in the Netherlands mainly reflects the sharp fall in exports, as a result of the fall in world trade. The stimulus measures taken by the Netherlands following the European Economic Recovery Plan (EERP) (approximately 1 % of GDP), the functioning of the automatic stabilisers (approximately 3¼ % of GDP[1]) and decreasing gas revenues (around ¾ % of GDP) contribute to the planned excessive deficit in 2009. Fiscal consolidation in good times and the absence of large external imbalances allowed the Dutch authorities to implement a sizeable welcome stimulus of about 2 % of GDP. The stimulus measures are broadly in line with the EERP, as they are timely, targeted and partially temporary.

[1] Estimated as a difference between the annual change in the nominal balance and the annual change in the cyclically adjusted balance.

(8) According to data notified by the Dutch authorities in October 2009, the general government deficit in the Netherlands is now planned to reach 4,8 % of GDP in 2009. The 2010 budget memorandum foresees a further deterioration of the general government deficit to 6,3 % of GDP in 2010. These deficits are in line with the projected deficits in the Commission services' 2009 autumn forecast, which projected a deficit of 4,7 % of GDP in 2009 and 6,1 % of GDP in 2010 on the basis of the fiscal measures known at that time. The overall fiscal stimulus measures amount to around 1 % of GDP in both 2009 and 2010. While about two thirds of the stimulus measures are temporary, about one third of them, like the lowering of social contributions and the plane ticket tax, is considered permanent. For 2011, the government has announced additional consolidation measures amounting to 0,3 % of GDP.

(9) Considering the special circumstances and the EERP framework, an average annual fiscal effort is recommended. The required fiscal effort should take into account all factors relevant for achieving the fiscal policy objectives, starting with the level of the general government deficit and gross debt as well as other indicators, such as the current account position, the level of contingent liabilities of the financial sector, interest payments, risk premia and the expected change in age-related expenditure in the medium term. In calculating the average annual fiscal effort, the 2011 deficit in the Commission services' autumn 2009 forecast is taken as the starting point. The total fiscal effort needed to reach the nominal deficit target of 3% by the deadline is then calculated by assuming a gradual closure of the output gap by 2015.

(10) Against this background, and in view of the relatively good fiscal starting position and stable current account surpluses, it is appropriate to consider the correction of the excessive deficit in a medium-term framework with a deadline for the correction of 2013 at the latest. A credible and sustainable adjustment path would require the Dutch authorities to implement the fiscal measures in 2010 as envisaged. In order to bring the deficit below the reference value by 2013, the Netherlands should ensure an average annual fiscal effort of ¾ % of GDP over the period 2011-2013, which should also contribute to halting the rapid rise of the government gross debt ratio, which is forecast to breach the reference value. Also, it would be appropriate to specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit in case economic or budgetary conditions turn out better than currently expected.

(11) Despite a sharp increase in 2008, mostly due to government operations to stabilise the financial markets amounting to approximately 15 % of GDP, the general government gross debt is foreseen to be still slightly below the 60 % of GDP reference value in 2009, at 59,7 % of GDP[1], according to data notified by the Dutch authorities in October 2009. Based on the Commission services' autumn 2009 forecast, the general government gross debt is expected to come out at 59,8 % of GDP in 2009 and to increase to around 66 % of GDP in 2010 and 70 % of GDP in 2011, thus exceeding 60 % Treaty reference value. The increase in 2009, 2010 and 2011 stems in large part from an important expected deterioration of the primary balance.

1 This figure does not include the government's illiquid asset back-up facility for ING, which amounts to around 3½ % of GDP (EUR 21 billion).

(12) As regards long-term sustainability of public finances, the long-term budgetary impact of ageing in the Netherlands is above the EU average, mainly as a result of a relatively high increase in pension and long-term care expenditure as a share of GDP over the coming decades. High primary surpluses and a further reform of the social security system aimed at curbing the substantial increase in age-related expenditures would contribute to reducing risk to the long-term sustainability of public finances as defined by the Commission Communication[1] on "Long-term sustainability of public finances for a recovering economy" and discussed by the ECOFIN Council[2] on 10 November 2009. The implementation of recently planned measures, in particular the increase in the retirement age, is also expected to contribute to long-term sustainability.

1 Available at: http://ec.europa.eu/economy_finance/publications/publication15996_en.pdf

2 Available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/111025.pdf

(13) Enhanced surveillance under the EDP, which seems necessary also in view of the deadline for the correction of the excessive deficit, will require regular and timely monitoring of the progress made in the implementation of the fiscal consolidation strategy to ensure the correction of the excessive deficit. In this context, a separate chapter in the updates of the Dutch stability programme which will be prepared between 2009 and 2013 could usefully be devoted to this issue.

(14) In general, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy.

(15) In addition, in view of the importance of achieving its medium-term objective (MTO) to provide an adequate safety margin against cyclical downturns and to ensure convergence of the debt ratio towards a prudent level, also taking into account implicit liabilities related to ageing, the Netherlands should also ensure that budgetary consolidation towards the MTO is sustained after the excessive deficit is corrected.

HEREBY RECOMMENDS:

(1) Recognising that the Dutch budgetary position in 2009 resulted from measures amounting to 1 % of GDP, which were an appropriate response to the European Economic Recovery Plan, and the free play of automatic stabilisers, the Dutch authorities should implement the fiscal measures in 2010 as envisaged in the 2010 budget and, starting consolidation in 2011, put an end to the present excessive deficit situation by 2013.

(2) The Dutch authorities should bring the general government deficit below 3 % of GDP in a credible and sustainable manner by taking action in a medium-term framework. Specifically, to this end, the Dutch authorities should:

(a) ensure an average annual fiscal effort of ¾ % of GDP over the period 2011-2013, which should also contribute to halting the rapid rise of the government gross debt ratio, which is forecast to breach the reference value;

(b) specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

(3) The Council establishes the deadline of 2 June 2010 for the Dutch government to take effective action to implement the fiscal measures in 2010 as envisaged and to outline in some detail the consolidation strategy that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared to the economic outlook in the Commission services' autumn 2009 forecast.

The Dutch authorities should report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2010 and 2013.

Furthermore, the Council invites the Dutch authorities to implement reforms with a view to raising potential GDP growth.

This Recommendation is addressed to the Netherlands.

Done at Brussels,

For the Council
The President