COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels,
SEC(2009) 1520

COMMISSION OPINION

on the existence of an excessive deficit in the Netherlands

Application of Article 104(5) of the Treaty establishing the European Community

COMMISSION OPINION

on the existence of an excessive deficit in the Netherlands

THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

1. Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future[1], although some of the costs of the government support could be recouped in the future.

2. The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the 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, and thereby ensuring long-term sustainability of public finances.

LEGAL BACKGROUND

3. Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[2], which is part of the Stability and Growth Pact.

---

[1] See the Eurostat decision of 15 July 2009 on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis, Eurostat News Release N° 103/209.

[2] OJ L 209, 2.8.1997, p. 6. Account is also taken of the Opinion of the Economic and Financial Committee on the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at: http://ec.europa.eu/economy_finance/other_pages/other_pages12638_en.htm.

4. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

5. Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

6. On the basis of the data notified by the Dutch authorities in April 2009[3] and taking into account the Commission services' spring 2009 and September 2009 interim forecast, the Commission adopted a report under Article 104(3) for the Netherlands on 7 October 2009[4].

7. Subsequently, and in accordance with Article 104(4), the Economic and Financial Committee formulated an opinion on the Commission report on 27 October 2009.

8. 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. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 104(3) and (ii) the opinion of the Economic and Financial Committee on this report. On the basis of these elements, the Commission has established a number of considerations for the Netherlands.

CONSIDERATIONS CONCERNING THE NETHERLANDS

9. Since the start of stage III of economic and monetary union, an EDP for the Netherlands was initiated in April 2004 by the Commission with the adoption of a report under Article 104(3) in view of a deficit of 3.2% of GDP in 2003, i.e. above the reference value. In June 2004, following the recommendations from the Commission, the Council decided that an excessive deficit existed in the Netherlands and addressed a recommendation to the Netherlands with a view to bringing the excessive deficit situation to an end, in accordance with Articles 104(6) and 104(7) of the Treaty. This recommendation established a deadline of 2005 at the latest for the correction of the excessive deficit. A strong fiscal adjustment was pursued in

---

3 According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notifications of the Netherlands can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/procedure/edp_notification_tables.

4 All EDP-related documents for the Netherlands can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2.

2004 in the form of substantial savings measures. In June 2005, following an overall assessment which showed that the correction of the excessive deficit situation in the Netherlands was already completed in 2004, the Council decided to abrogate its decision on the existence of an excessive deficit under Article 104(12).

10. After the end of the excessive deficit procedure, the Dutch government balance remained well below the deficit threshold of 3% of GDP with surpluses in 2006, 2007 and 2008 of 0.5%, 0.2% and 0.7% of GDP, respectively. In 2006, the structural balance was at 0.1% of GDP and respected the medium-term budgetary objective (MTO) of the Netherlands, which is a range of -0.5% to -1.0% of GDP. In 2007, despite good economic times indicated by a high economic growth the fiscal stance was eased and the structural surplus of the previous years turned into a structural deficit of 1.3% of GDP which came slightly down to 1.0% of GDP in 2008. During the period 2005-2007, the general government gross debt ratio declined by about 6½% pp. to 45¾% in 2007, well below the 60% Treaty reference value. In 2008, general government gross debt increased sharply to 58.2% of GDP despite a 0.7% budget surplus, and was mainly caused by government operations to stabilise the financial markets. As a response to the economic crisis, the Dutch government adopted in total three recovery packages leading to a total stimulus of around 2%. The measures of the three packages, although only partially temporary, are broadly in line with the EERP, the crisis measures are generally well timed as they are planned for both 2009 and 2010. They are also well targeted, as they are aimed at the areas most affected by the crisis, focusing on household purchasing power, private and public investment, employment protection, increasing (vocational) training budgets and support to credit-constrained companies.

11. According to data notified by the Dutch authorities in April 2009, the general government deficit in the Netherlands was planned to reach 3.3% of GDP in 2009, thus exceeding the 3% of GDP reference value. The Commission report under Article 104(3) considered that although the deficit planned in the notification was close to the 3% of GDP reference value, based on the authorities 2010 budget memorandum published on 15 September showing a deficit of 4.8% of GDP in 2009 it was expected that the actual outcome would not be close to the threshold. The Commission also considered that the planned excess over the reference value could be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact, on the basis of the information available at the time of the report. Furthermore, the planned excess over the reference value could not be considered temporary.

12. According to more recent 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, thus being above and not close to the 3% of GDP reference value. Based on the Commission services' autumn 2009 forecast, the planned excess over the reference value still qualifies as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it results mainly from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. In the Commission services' 2009 autumn forecast GDP is expected to contract by 4.5% in 2009 and to grow by only ¼% in 2010. Furthermore, also on the basis of the Commission services' autumn 2009 forecast the planned excess over the reference value cannot be considered temporary, since the general government deficit is projected to come out at 4.7% of GDP in 2009, 6.1% of GDP in 2010 and 5.6% of

GDP in 2011 on the basis of the usual no-policy change assumption. This assumption takes into account that, according to government plans, a large part of the measures of extraordinary nature linked to the crisis in line with the EERP will be maintained in 2010 but rolled back in 2011. The overall stimulus amounts 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, cannot be considered as such. The assumption also takes into account the planned consolidation measures amounting to 0.3% of GDP, starting in 2011. The deficit criterion in the Treaty is not fulfilled.

13. According to data notified by the Dutch authorities in October 2009, the general government gross debt is still slightly below the 60% of GDP reference value, at 59.7% of GDP in 2009[5]. The Commission services' autumn 2009 forecast expects the general government gross debt 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. This increase stems in large part from an important expected deterioration of the primary balance.

14. In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its report “relevant factors”. According to the Stability and Growth Pact, these could only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the deficit satisfies the double condition of closeness and temporariness. In the case of the Netherlands, the double condition is not met. Considered on their own merit, the relevant factors in the current case on balance are relatively favourable.

15. The opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty is consistent with the assessment in the Commission report under Article 104(3).

CONCLUSION

16. The monitoring of the budgetary situation in the Netherlands and, in particular, the examination of the compliance with the criteria laid down in Article 104(2) has led the Commission to prepare a report in accordance with Article 104(3) of the Treaty. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in the Netherlands.

[5] 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).