IP/98/1020

Brussels, 25 November 1998

Commission assesses the Dutch stability programme

The European Commission has today made a recommendation to the Council of Ministers on the Dutch stability programme. The Commission conclusion is that the budgetary policy presented in the stability programme of the Netherlands is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines agreed at the Cardiff European Council. Based on the Coalition Agreement reached by the government in August 1998 the programme extends to broad economic strategy of recent years to the period 1999-2002. In essence this implies that the reduction of the deficit will be carried out in conjunction with substantial reduction in the tax burden. This approach, applied within a context of wage moderation and social consensus, has proved to be successful. For the next four years, the Dutch authorities intend to allocate substantial resources to the improvement in the global efficiency of the economy, while maintaining sound public finances. The programme presents three basic macroeconomic scenarios where annual average real GDP growth is expected to reach 2¼%, 2¾%, 3¼% respectively. The corresponding government deficit falls to 1% of GDP in the cautious scenario to ¼% of GDP in the middle scenario and turns into a surplus of ¼% of GDP in the optimistic scenario. The stability programme establishes all the detailed public finance projections on the basis of the cautious scenario. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the Dutch stability programme on 1 December 1998.

This Commission recommendation is adopted at the initiative of President Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic monetary and financial affairs as part of the procedures in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union (EU).

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries participating in the euro-zone to present stability programmes to the Council and the Commission. The aim of these programmes is to illustrate how countries intend to meet the objectives of the Pact, in particular the medium-term objective of a budget close to balance or in surplus which will enable them to deal with normal cyclical fluctuations without exceeding the reference value for the deficit of 3% of GDP.

The Commission main conclusions are the following:

- the programme is broadly in line with the requirements of the Stability and Growth Pact;

- the programme presents three macroeconomic scenarios, but all the detailed projections for the public finance aggregates are based on the cautious scenario; in this scenario the government deficit falls to 1% of GDP in 2002; this prudent approach was adopted by the Dutch authorities to ensure sound public finances;
- a more optimistic scenario, the middle scenario, seems, however, to correspond more to the current consensus: in this scenario the government deficit falls close to balance in 2002;
- the fiscal consolidation effort projected from 1999 to 2002 appears to be less ambitious when compared with progress achieved in the years leading up to 1997;
- the emphasis is shifted further towards reduction in the tax burden as well as increased expenditure aimed at structural improvement; this approach is understandable but needs attentive monitoring by the Dutch authorities;
- all favourable opportunities should be taken in order further to reinforce the safety margin aimed at preventing the deficit exceeding the Treaty reference value of 3% of GDP, and thus to strengthen the budgetary position of the Netherlands.

Key figures of the Dutch stability programme (cautious scenario)

	1997	**1998**	**1999**	**2000**	**2001**	**2002**
Real GDP growth (annual %)	3.7	3.9	2 ¼*			
General government budget balance (% of GDP)	-0.9	-1.3	-1.3			-1.1
Government debt (% of GDP)	71.4	68.6	66.4			64.5
Inflation (CPI)	2.2	2	2*			
Employment growth (%)	2.9	3.0	1 ½*			

* yearly average on the period 1999-2002