IP/00/50

Brussels, 18 January 2000

Commission assesses 1st update of Netherlands stability programme

The European Commission has today made a recommendation to the Council on the updated of stability programme of the Netherlands, which was presented on 26 November 1999. The Commission's conclusion is that the implementation of the initial stability programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. The programme was based on the Coalition Agreement reached by the parties of the current majority in August 1998 ; it extended to the period from 1999 to 2002 the double-handed economic policy followed during the period 1994-1998, where the fiscal consolidation effort had to be implemented in conjunction with substantial reduction in the tax burden.

The updated programme presents broadly the same three basic macroeconomic scenarios as the initial programme, where real GDP growth is expected to reach respectively 2%, 2¾%, 3¼% in 2001 and 2002. For reasons of prudence and like the initial stability programme, the updated programme opts for the cautious scenario as the basic macroeconomic assumption. However, taking into account the favourable recent developments and prospects for the Dutch economy, the Commission believes that the middle or even the favourable scenarios represent more plausible sets of macroeconomic hypotheses for the coming years. Within these two scenarios, the level reached by the general government deficit at the end of the period provides a sufficient safety margin to cope with possible adverse developments in the future without breaching the 3% of GDP limit defined by the Stability and Growth Pact for government deficits.

On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the Dutch stability programme on 31 January 2000.

This Commission recommendation was adopted on the initiative of Mr Pedro Solbes Mira, the Commissioner responsible for economic monetary and financial affairs. This recommendation is part of the procedures set in the Stability and Growth Pact for surveillance and coordination of national economic and budgetary policies at the level of the European.

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. These programmes provide information on how countries intend to meet the objectives of the Pact and in particular the medium term goal of a budget close to balance or in surplus.

The Commission main conclusions are the following:

- the updated programme is in line with the requirements of the Stability and Growth Pact;
- like the initial programme, the updated 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 barely falls to 1.1% of GDP in 2002; however, considering the recent revision of the real GDP and government balance estimates for 1999, this scenario seems irrealistic from now.
- the two more optimistic scenarios,, the middle scenario and the favourable one, seem to correspond more to recent developments and likeliest prospects for the coming years : in these scenarios the government deficit falls respectively to ¼ % of GDP or to zero in 2002.
- in the context of these two scenarios, the level reached by the deficit at the end of the period seems sufficient to provide an adequate safety margin.

Key figures of the Dutch stability programme

<table>
<tr><th></th><th></th><th>1998</th><th>1999</th><th>2000</th><th>2001</th><th>2002</th></tr>
<tr><td rowspan="3">Real GDP growth (annual % change) (*)</td><td>cautious scenario</td><td rowspan="3">3.7</td><td rowspan="3">2 ¾</td><td rowspan="3">2 ½</td><td colspan="2">2</td></tr>
<tr><td>middle scenario</td><td colspan="2">2 ¾</td></tr>
<tr><td>favourable scenario</td><td colspan="2">3 ¼</td></tr>
<tr><td rowspan="3">General government budget balance (% of GDP)</td><td>cautious scenario</td><td rowspan="3">-0.8</td><td rowspan="3">-0.6</td><td rowspan="3">-0.6</td><td>-1.3</td><td>-1.1</td></tr>
<tr><td>middle scenario</td><td>- ¾</td><td>- ¼</td></tr>
<tr><td>favourable scenario</td><td>- ½</td><td>0</td></tr>
<tr><td rowspan="3">Government debt (% of GDP)</td><td>cautious scenario</td><td rowspan="3">66.6</td><td rowspan="3">64.3</td><td rowspan="3">62.3</td><td>61.8</td><td>61.0</td></tr>
<tr><td>middle scenario</td><td>61 ¼</td><td>59 ¾</td></tr>
<tr><td>favourable scenario</td><td>60 ¾</td><td>59</td></tr>
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(*) for 2001 and 2002 yearly average