IP/00/1297

Brussels, 15 November 2000

Commission assesses the updated Stability Programme of the Netherlands (2000-2004)

The European Commission adopted today a recommendation to the Council of Ministers on the 2000 update of the stability programme of the Netherlands (2000-2004). The Commission concludes that the updated programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. The updated programme presents for the period 2002 to 2004 two macroeconomic scenarios. The Commission considers the favourable scenario as more plausible. Due to the strong economic performance the government balance turned into a surplus of 1% of GDP in both years (excluding the UMTS proceeds in 2000). The year 2001 will be marked by the implementation of a fiscal reform which includes a significant reduction in taxes. Therefore, the general government surplus will decrease to 0.7% of GDP in that year. The government debt ratio is expected to be reduced from 56.6% in 2000 to 52.3% in 2001 and well below 50% by 2004. On the basis of the Commission's recommendation, the Ecofin Council is expected to adopt a formal opinion on the update of the stability programme of the Netherlands on [27 November 2000].

The Commission recommendation is adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the member states' stability programmes is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union and the important spill over effects that economic policies in one member state can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which member states plan to conduct their economic policies over the short and medium term. An assessment of how member states plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis."*

The Commission main conclusions on the Dutch programme are the following:

- Macroeconomic developments in the Netherlands have been impressive and better than was expected in the 1999 update of the stability programme. Real GDP expanded strongly in both 1999 and 2000. All components of total demand contributed to this sustained expansion, particularly private consumption and exports. Employment increased at a rapid pace and the unemployment rate is falling to frictional levels. Taking into account the strong economic prospects for the Dutch economy in the next two years, the Commission considers the **favourable scenario as more plausible**. It provides a more appropriate basis for the assessment of the budgetary position over the medium term.

- On the back of the strong performance the **general government balance**, in both 1999 and 2000, improved significantly to a surplus of 1% of GDP in 2000 (1.7% surplus including the UMTS proceeds) against a deficit of 0.6% projected in the 1999 update. The budget for 2001 projects the general government surplus to decline to 0.7% of GDP as a result of the tax reform. In 2003-04, under the more realistic favourable scenario, the general government surplus is expected to remain at 0.5% of GDP. The medium term budgetary targets therefore remain in line with the Stability and Growth Pact.

- In the following years, particularly in 2002, **more revenue margins** are expected to become available. In such a case the present government and the following cabinet will have to decide on the **appropriate allocation** of these margins to tax alleviation or to debt reduction in the light, in particular, of overheating risks.

- A key element of the updated programme is the 2001 **tax reform** which introduces a shift from direct taxation to indirect taxation through a reduction in income tax and social security contributions and a rise of the standard VAT rate from 17.5% to 19% as well as an increase in environmental levies. The reform aims at improving the efficiency of the economy and particularly at stimulating the supply of labour.

- Given the current tight labour market conditions, at a time when a long lasting remarkable wage moderation is coming to an end and the strong economic activity, which is projected to remain robust in the coming years, **inflationary pressures** are already emerging in the economy and may strengthen in the future. Such risks must be contained notably through a more stability oriented fiscal policy.

- The Dutch authorities have since 1994 based their budgetary strategy on limited growth of real expenditure (below real GDP growth). While still respecting the imposed expenditure ceilings in real terms, significant additional spending is decided on education, healthcare and investment in infrastructure. This represents an important **improvement in the quality of public expenditure** and is in line with the overall discussions at Council level to improve the quality and sustainability of public finances.

- A welcome feature of the 2000 update is the consideration given to long-term sustainability of public finances, under the impact of ageing population, and the identification of conditions and policies to this end. The government debt ratio is expected to continue to be reduced from 56.6% in 2000 to 52.3% in 2001 and well below 50% by 2004. To **secure the sustainability of public finances** in the long term it would be appropriate to allocate a larger share of the budgetary margins, likely to become available from 2002 onwards, to an acceleration of debt reduction.

- The Netherlands submitted the 2000 update of the stability programme on 19 September 2000 shortly after the approval of the 2001 budget. The programme includes therefore the most recent data and forecasts. It includes a cautious and a favourable scenario of analysis.

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.

Key figures of the updated stability programme (SP) of the Netherlands

	SP	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Real GDP growth (annual % change) - cautious scenario (2002 – 2004) - favourable scenario (2002 – 2004)	2000 update	3.9	4 ½	4	2 3 ¼	2 3 ¼	2 3 ¼
	1999 update **	*2.75*	*2.5*	*3.25*			
General government balance (% of GDP) - cautious scenario (2002 – 2004) - favourable scenario (2002 – 2004)	2000 update	+ 1.0	+1.0*	+ 0.7	+ ¼ + ½	+ ¼ + ½	+ ¼ + ½
	1999 update **	*- 0.6*	*-0.6*	*-0.5*	*0.0*		
General government gross debt (% of GDP) - cautious scenario (2002 – 2004) - favourable scenario (2002 – 2004)	2000 update	62.9	56.6	52.3	50 ¼ 49 ½	48 ¾ 47 ¼	46 ¾ 44 ¾
	1999 update **	*64.3*	*62.3*	*60.75*	*59*		
Inflation CPI (national)	2000 update	2.2	2 ½	3 ½	2 ½ ***	1 ¾ ***	1 ¾ ***
	1999 update **	*2*	*1 ¾*	*2 ¾* ***	*2 ¾* ***		

* + 1.7 including the proceeds from the auction of UMTS licences

** favorable scenario

*** cautious scenario