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Stability Programme of the Netherlands

November 2006 Update

ministry of Finance

Contents

Chapter 1 Overall policy framework and objectives

After a number of difficult years, the Dutch economy is back in shape. With the positive developments that set in last year continuing, economic growth this year and next is expected to come in well above potential at 3¼% and 3% in 2006 and 2007 respectively. Owing in part to government austerity measures and, more recently, due to favourable economic developments and better than expected gas revenues, the budgetary outlook has greatly improved. In 2003 the government budget showed an excessive deficit of 3.1% of GDP. Last year's update of the Dutch stability programme still projected a budget deficit of 1.8% of GDP for both 2005 and 2006. The latest budget figures however show that last year's actual deficit came in at 0.3% of GDP, while surpluses are expected for 2006 (0.1% of GDP) and 2007 (0.2% of GDP)[1]. The structural EMU-balance has shown a marked improvement as well, from -2.2% in 2003 to roughly zero in 2007. The improvement in government finances is also evident in the reduction of government debt. For the first time in more than 25 years government debt will be less than half of gross domestic product.

Restoring fiscal health has been one of the Cabinet's key policy objectives since it took office in 2003[2]. The budgetary objective at the start of the Cabinet term was a structural deficit of no more than 0.5% in 2007. Based on current information this objective will easily be met. In the short run, the risks to the budget seem limited, given the rather cautious projection for the development of revenues. Under the Dutch budgetary rules revenue windfalls in taxes and social security contributions cannot be spent. Moreover, in light of the positive outlook for economic growth in 2007, the Cabinet has decided not to use all the room available under the expenditure ceilings in 2007.

The second key policy objective is to strengthen the structure of the Dutch economy. The government has taken measures to boost labour participation, enhance productivity, improve the business climate and restore competitiveness. Extensive changes to social security, including reforms of the welfare, unemployment, disability and early retirement benefits have significantly boosted incentives for people to accept work and to stay in the labour force. The first results look promising. For example, the number of people on disability benefits has decreased from 980,000 in 2003 to an estimated 860,000 in 2006. The government has used a large part of the higher than expected gas revenues for additional investments in infrastructure, knowledge projects and environment. The business climate has been improved by a substantive reduction of the administrative burden and an overhaul of the corporate taxation system which will become effective in 2007. In summary, the Dutch economy is in much better shape now than a couple of years ago.

Nevertheless, significant challenges remain. As regards public finance, the single most important challenge is the cost of ageing. The latest calculations by the Netherlands Bureau for Economic Policy

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[1] The recently published Autumn Report (Najaarsnota) even shows a surplus of the 0.4 % GDP for 2006. The tables in this programme exclude this recent windfall due to the fact that the structural character of this windfall are, as yet, unclear.

[2] In July 2006 the junior coalition partner left the government. Formally, a new Cabinet has been in office as of that moment. In terms of the policy agenda the current Cabinet is continuation of the previous one. Elections are held at 22 November 2006.

Analysis (*Centraal Planbureau*/CPB) show that despite the government's serious reform effort, a sustainability gap of 1.5% remains. Although a gap of this size should be manageable for future governments, it does point to the need for further measures and sustained fiscal prudence. Political parties appear to be well aware of the ageing problem: all major political parties that are competing in the upcoming elections (22 November 2006) have promised to strive for a surplus on the budget.

This update is based on the budget for 2007 and the CPB's medium term scenario, which assumes no policy change for the years 2008 and 2009. Following its approval by the Dutch Council of Ministers on 17 November 2006, it was simultaneously sent to Parliament and the European Commission. The Council opinion on the previous programme was presented to Parliament in March 2006.

Chapter 2 Economic outlook

World economy and technical assumptions

In 2006 the Dutch economy benefited from a positive external environment. Most relevant to the Netherlands is the recent strengthening of the EU economies and, especially the euro area. In the first half of this year, notwithstanding rising commodity prices, economic growth accelerated in the euro area, unemployment retreated while inflation remained broadly stable. Although for next year a slightly lower growth of the world economy is expected, the external environment remains beneficial for the Netherlands.

Table 1 shows the external assumptions for the short and medium term economic scenario for the Netherlands. The short term scenario (this year and next) is based on the latest short-term economic forecasts by the independent CPB[3], while the medium-term scenario (2008 and 2009) is based on the cautious variant of its latest medium-term scenario[4].

Table 2.1 External assumptions

	2005	2006	2007	2008	2009
Short-term interest rate (annual average)	2.2	3	3½	3½	3½
USD/€ exchange rate (annual average)	1.24	1.24	1.25	1.30	1.34
Nominal effective exchange rate	-0.4	-¼	¼	1	1
World GDP growth	4.7	5¼	4½	4½	4½
EU GDP growth	1.5	2½	2¼	2	2
World GDP growth excluding EU	4.0	4¾	4	4	4
Growth of relevant foreign markets*	7.4	9¼	8¾	5¾	5¾
World import volumes, excluding EU	9.4	10.5	10.4	8.25	8.25
Oil prices (Brent, USD per barrel)	54.4	68	70	68	65

* Taken to be equivalent to the Dutch "*relevant wereldhandelsvolume*"

The external assumptions underlying the Dutch economic scenario do not differ significantly from those of the European Commission. Our economic forecast and the Commission's autumn forecast are compared at the end of this chapter. Chapter 4 presents an analysis of some alternative scenarios

[3] CPB, "Macro Economische Verkenning 2007", September 2006
[4] CPB, "Economische Verkenning 2008 – 2011", September 2006

showing the sensitivity of the economic scenario to major assumptions (oil price, exchange rate, private durable consumption).

Cyclical developments and current prospects

After a number of years of subdued economic growth, economic activity sharply accelerated in 2006. With a projected growth of 3¼% in 2006 and 3% in 2007 the economy is expanding above trend. As a result, the output gap, which has been negative since 2001, will turn slightly positive in 2007.

The recovery is broad based. Private consumption, private investment, residential investment and government consumption all contribute ¼% or ½% to growth. Nonetheless, gross external demand still accounts for half of the economic growth.

The economic recovery is reflected in other respects too. Employment has risen for two consecutive quarters and unemployment declined by 75.000 persons between 2005 and the third quarter of this year. Moreover consumer confidence is at a four year high.

Table 2.2 Macroeconomic prospects

	ESA Code	2005	2005	2006	2007	2008	2009
		level	rate of change	rate of change	rate of change	rate of change	rate of change
Real GDP	B1*g	505.6	1.5	3¼	3	1¾	1¾
Nominal GDP (€ bln)	B1*g	505.6	3.2	4¾	4¾	3¼	3¼
Components of real GDP							
Private consumption expenditure	P.3	247.1	0.7	-1¼	2	1¼	1¼
Government consumption expenditure	P.3	121.8	0.3	9	2¼	1½	1½
Gross fixed capital formation	P.51	97.7	3.6	4¾	4	1¾	1¾
Changes in inventories (Δ)	P.52+P.53	0.1	-0.2	¼	½	½	¼
Exports of goods and services	P.6	353.6	4.8	6¾	6¼	6	6
Imports of goods and services	P.7	314.6	4.3	6¾	6½	6	6
Contributions to real GDP growth							
Final domestic demand		466.7	1.2	2.5	2.2	1.6	1.6
Changes in inventories (Δ)	P.52+P.53	-1.2	-0.1	0.3	0.6	0	0
External balance of goods and services	B.11	40.0	0.3	0.3	0.2	0.1	0.1

Medium term scenario

In the medium term (2008 – 2011), the Dutch economy is expected to grow by 1¾% a year in the cautious scenario. The economic growth is a result of potential growth (2¼%), a diminishing output gap (-¼%-pt) and a safety margin (-¼%-pt). Labour productivity is by far the biggest contributor to potential growth, explaining around 1½%-pt of potential growth (including safety margin). Labour productivity is bolstered by an increase in capital intensity. Finally, almost ½%-pt is a consequence of the increase in employment.

Table 2.3 Cyclical developments

	ESA Code	2005	2006	2007	2008	2009
Real GDP growth		1.5	3¼	3	1¾*	1¾*
Potential GDP growth		1.8	2.1	2.1	2.0	1.9
Contributions to growth:						
- Labour		0.4	0.6	0.5	0.3	0.4
- Capital		0.6	0.6	0.7	0.7	0.7
- Total factor productivity		0.9	0.9	0.9	0.9	0.9
Output gap		-1.7	-0.7	0.2	0.0	-0.2

* Potential growth minus a safety margin of ¼%-point (according to CPB methodology – see CPB document 129)
Note: For the years 2008 and 2009 the potential GDP growth are technical extrapolations based on the short term economic outlook and medium term scenario

Sectoral balances

Last year, the European Commission pointed to the importance of improved economic prospects in the major trading partners of the Netherlands and activity in the EU as a whole for the recovery of the Dutch economy. The economy of the Netherlands is still very sensitive to the economic performance of its major trading partners.

In the period since 2000 the competitive position of the Dutch manufacturing industry deteriorated significantly. In the four years up to 2005, the unit labour costs in the Netherlands rose 15.4% faster than in competing countries. The main drivers behind this development were the rising wage costs (including pension premiums) and the appreciation of the euro from an average of 0.90 US dollars in 2001 to an average of 1.24 US dollars in 2004. Over last year as well as this year and next, the competitive position of the Netherlands is expected to improve slightly. The exchange rate is expected to stabilize at the level of the beginning of this year, while unit labour costs are expected to decrease due to wage restraint and an increase in productivity.

Although unit labour costs will decline by less than elsewhere in the euro area, they will fall compared to non-euro area trading partners. Wages outside the euro area are rising significantly faster due to the strong economic activity in those countries. Assuming that both the euro exchange rate and the nominal effective exchange rate for the Netherlands remain practically unchanged in 2006 and 2007, competitiveness should show a slight improvement.

As shown in table 2.4 the external balances are expected to remain broadly stable with a persistent surplus on the balance of goods of services and a small deficit on the balance of primary income and transfers. As a result, the Netherlands will remain a net exporter of capital in the coming years.

Table 2.4 Sectoral balances

% of GDP	ESA Code	2005	2006	2007	2008	2009
Net lending/borrowing vis-à-vis the rest of the world	B.9	6.9	6.9	6.7	7.1	7.5
Of which						
- Balance on goods and services		7.7	7.6	7.6	7.8	8.0
- Balance of primary incomes and transfers		-0.5	-0.4	-0.6	-0.4	-0.2
- Capital account		-0.3	-0.3	-0.3	-0.3	-0.3*
Net lending/borrowing of the private sector		7.6	7.1	6.8	7.1	6.9
Net lending/borrowing of general government		-0.3	0.1	0.2	0.3	0.9
Statistical discrepancy		0	0	0	0	0

* Based on a technical extrapolation of the historical trend

Labour market

Unit labour costs are expected to decline both this year and next. In 2005, the increase in contract wages in the market sector, i.e. wage levels agreed between the social partners in collective agreements (CAOs), was the lowest in almost 20 years and remained below inflation. Unit labour costs fell by 0.8%. Contract wages are expected to rise by slightly more than the forecast rate of inflation. However, unit labour costs will decline by 2¾% in 2006 and by 1½% in 2007 due to higher labour productivity. In the medium term, contract wages are expected to increase further (3% in 2008 and 2009) while labour productivity is expected to increase by 1¾ %.

Table 2.5 Labour market developments

	ESA Code	2005 level	2005 rate of change	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change
Employment (x thousand persons)		6918	0.0	2	2	¼	¼
Employment (hours worked)		11,1	-¼	1¾	1½	¼	¼
Unemployment (% of labour force)		483000	6.5	5½	4½	4½	4½
Labour productivity (persons)		34.600*	3¼	2½	2¾	1½	1½
Labour productivity, hours worked		49.1*	2.6	4½	3¾	1½	1½
Compensation of employees	D.1	252.2	1.7	1½	2¼	3¼	3¼

* Taken from the Groningen Growth and Development Database

Comparison with Autumn Forecasts

The table below compares the latest economic and budgetary forecasts of the European Commission (EC) and the Netherlands (NL/CPB). Although the outlook is in line with the Autumn Forecasts, there are some differences.

Expectations with respect to economic growth up to 2007 are roughly similar, with the outlook of the Dutch government for 2006 slightly more positive (+¼%-pt). For 2008 the outlooks differ. The Cabinet's scenario for 2008 incorporates for the first time the cautious medium term scenario (please refer to the section above on the medium term scenario).

Table 2.6 Comparison with Autumn Forecasts

Variable	**Source**	**2005**	**2006**	**2007**	**2008**
Economic growth	EC	1.5	3.0	2.9	2.5
	NL/CPB	1.5	3¼	3	1¾
Private consumption	EC	0.7	-0.6	1.8	2.0
	NL/CPB	0.7	-1¼	2	1¼
Gross fixed capital formation	EC	3.6	4.5	4.4	2.1
	NL/CPB	3.6	4¾	4	1¾
General government balance	EC	-0.3	0.0	+0.1	+0.3
	NL/CPB	-0.3	+0.1	+0.2	+0.3

Economic implications of major structural reforms

Several policy measures of this Cabinet have enhanced the structure of the Dutch economy. An ex-post assessment of their effects is hard, though, given the absence of a counterfactual. The CPB made an ex-ante analyses of the effect the Global Agreement[5].

According to CPB, the fiscal restraint would lead to lower aggregate demand and would, hence, lower economic growth by 0.2%-pt a year. Potential growth would not be affected by the structural reforms and was expected to remain 2% during the Cabinet's term. Labour productivity was expected to grow by 1¾% yearly. Structural unemployment was expected to fall slightly, while actual unemployment would go up. In retrospect, labour productivity actually grew by 2.9% per year.

[5] CPB report 2003/2 "The new coalition agreement"

Chapter 3 General government balances and debt

Policy strategy

This Cabinet is guided by the policy agenda as was laid down in the coalition agreement known as the 'Global Agreement for Government Policy' at the start of the Cabinet's term[6]. This agreement includes the budgetary policy for the years 2004 – 2007. The projections are based on the medium term projections as presented by the independent CPB. The projections include a safety margin for economic growth of ¼%-pt and are, therefore, cautious. The main focus of the budget was to make government finances sustainable in view of the ageing population and to fulfil the requirements of the Stability and Growth Pact. This resulted in a budgetary objective of a structural deficit of no more than 0.5% of GDP in 2007. The Cabinet agreed to maintain the system of real expenditure ceilings and to let both revenue windfalls and setbacks flow into the budget balance[7], as long as there was a sufficient safety margin to the 3% of GDP deficit limit. The minimum safety margin was set at a 2.5% deficit beyond which the Cabinet would take additional measures. Based on the economic outlook at the start of the Cabinet's term in office, the budget balance would improve from -1.8% of GDP in 2003 to -0.5% of GDP in 2007. The structural balance would move from a deficit of 1.2% of GDP in 2003 to a deficit of 0.5% of GDP in 2007[8].

As early as September of 2003, significant setbacks in government finances became apparent and additional policy measures were taken in accordance with the budgetary rules under the Global Agreement. The Netherlands even dipped into an excessive deficit of 3.1% of GDP in 2003. The excessive deficit procedure was started on 2 June 2004 and abrogated in 18 May 2005. The deficit was corrected a full year ahead of the deadline established by the Council. During the whole of its term in office, the Cabinet has abided by its own budgetary rules notwithstanding the sizeable efforts required. In total budgetary savings amounted to over 2% of GDP.

Actual balances and budget implications for next year

In 2006 and 2007 a small budgetary surplus of 0.1% and 0.2% of GDP respectively is expected according to the Budget Memorandum for 2007. The recently published Autumn Report (Najaarsnota) even projects a surplus of the 0.4 % GDP for 2006, an improvement of 0.3% to the 0.1% of GDP reported in the Budget Memorandum for 2007. This amelioration is due to windfalls on the revenue side. The tables in this programme exclude this recent windfall due to the fact that the structural character of this windfall is, as yet, unclear.

Public spending in 2006 is in line with the expenditure ceiling agreed at the start of this Cabinet's term. Since a positive output gap is projected for 2007, the government has decided not to use all the room available under the expenditure ceiling in that year (room available is € 0.3 billion). Government

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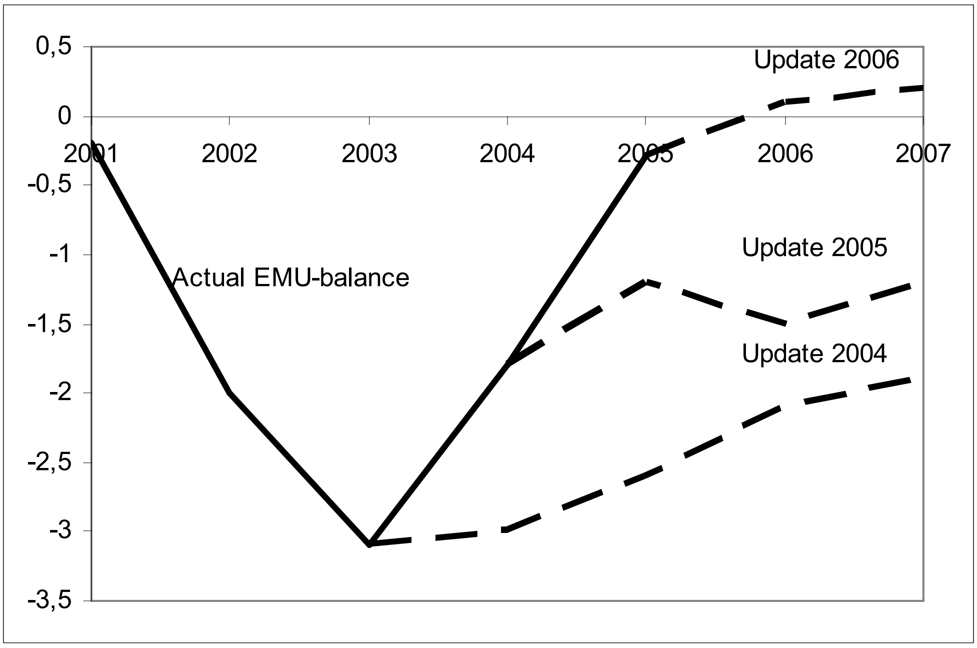
[6] The current Cabinet (Balkenende III) has been in office since July 2006. As the two major coalition parties of the previous Cabinet are also part of the new Cabinet, there has been a substantive continuity in policy. Therefore the term "Cabinet" in the text refers to both the current Cabinet and the previous Cabinet which took office in 2004.

[7] Please also refer to Chapter 7 on the budgetary framework

[8] Budget memorandum 2004

revenues have benefited from the rising oil prices that lead to higher gas revenues[9] in combination with accelerating economic growth.

Figure 3.1 EMU balance outlook according to subsequent updates



Medium term objective

Following, the Stability and Growth Pact Member States set a medium-term objective (MTO) which may diverge from a budgetary position of close to balance or in surplus. Since the Netherlands' debt ratio is less than 60% of GDP and long-term potential growth, according to EPC's calculations, is just above the EU average, this implies a range for the MTO from -0.5% of GDP up to -1% of GDP. This range was adopted as the MTO for the Netherlands. At the same time, it is widely recognised in the Netherlands that this MTO, stemming from the Stability and Growth Pact, may not be sufficient to ensure the long term sustainability of public finance in light of the costs of ageing. All major political parties in the run-up to the 22 November elections aim for a structural surplus in 2011.

Structural balance and fiscal stance

One of the main aims of budgetary policy was to improve the structural budget balance, to ensure structurally more sound government finances. The operational target was a structural deficit of no more than 0.5% of GDP at the end of the Cabinet's term in office. This objective was already achieved by a large margin in 2005 and the same is expected for 2006. In fact, the structural balance improved by more than two percentage point in the period 2003 – 2007, a doubling compared to the expectations in the budget memorandum for 2004.

In 2007 there is a slight deterioration of the structural balance due to the output gap improvement[10] and despite a small improvement in the actual EMU-balance. Should growth in government revenues

[9] In comparison to the expectations in the Global Agreement, gas revenues have increased by 1,7% of GDP.

equal growth in national income (a progression factor of 1) the structural budget balance would be 0.4% of GDP in 2007. In all cases the structural deficit is well above the Dutch MTO (between -0.5% of GDP and -1.0% of GDP).

Table 3.2 Structural balances

% GDP	2005[11]	2006	2007	2008	2009
General government balance	-0.3	0.1	0.2	0.3	0.9
- Cyclical component	0.9	0.3	-0.2	0.0	0.1
- One-off and temp measures	0.0	0.0	0.0	0.0	-0.3
Structural balance	0.6	0.4	0.0	0.3	0.7[12]

Debt developments

For the first time in 25 years government debt is expected to be less than half of gross domestic product next year. In the following years, government debt will continue its downward trend. Interest expenditure will decrease as a consequence of the debt amortization.

Stock-flow adjustment

The stock-flow adjustment for the years 2006 – 2009 can be explained by the denominator effect of nominal GDP-development. In 2005 the net accumulation of financial assets and the denominator effect explain the stock flow adjustment.

Table 3.3 General government debt developments

% of GDP		2005	2006	2007	2008	2009
1. Gross debt		52.7	50.2	47.9	46.3	44.2
Contributions to changes in gross debt						
3. Primary balance (minus sign = surplus)		-2.1	-2.4	-2.4	-2.4	-2.9
4. Interest expenditure		2.4	2.3	2.2	2.1	2.0
5. Stock-flow adjustment (of which denominator effect)		-0.2 (-1.6)	-2.4 (-2.3)	-2.1 (-2.3)	-1.3 (-1.7)	-1.2 (-1.7)

Budgetary implications of major structural reforms

At the start of this Cabinet's term in office, the coalition parties agreed to budgetary measures amounting to over 2% of GDP alongside major structural reforms. Although the total real budgetary effects, including the effects on economic growth and behaviour of economic agents, are hard to calculate, the CPB made an ex ante calculation of the budgetary effect. As a consequence of the

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[10] In 2007 there are no temporary or one-off policy measures.

[11] In 2005 there was a positive one-off effect on the actual balance of around 0.2% of GDP arising from banking at the Treasury by corporate taxpayers, because the interest received on tax refunds was higher than the market rate. The interest received on tax refunds was adjusted at end-2005, leading to a reverse effect in 2006. However, this was an unintended outcome of government policy and therefore is not a one-off measure. It actually deteriorated the budget outlook going from 2005 into 2006.

[12] Excluding one-off of 0.3% GDP due to the receipt in 2009 of restitution EU own resources for the years 2007 and 2008

policy measures, the EMU balance was expected to improve by 1,3% of GDP and the structural balance by 1,7% of GDP over the Cabinet's term in office. The sustainability of Dutch public finances improved by 3.5% of GDP as a consequence of the structural and budgetary reforms.

Chapter 4 Sensitivity analysis and comparison with previous update

Comparison with previous update

The 2005 update was already more favourable than the 2004 update. This year's update is again more positive than last year, showing an improvement in both the economic outlook and the budget outlook. Stronger domestic demand is one reason for the better economic outlook which, in conjunction with rising oil prices, underlies the improved budget outlook. Normally, it is assumed that rising oil prices would be offset by slower economic growth (net effect of zero on EMU balance). This time around, economic activity accelerated notwithstanding the surging oil price that lead to higher gas revenues.

Table 4.1 Divergence from previous update

	ESA Code	2005	2006	2007	2008	2009
Real GDP growth (%)						
Previous update		¾	2½	2½	2¼	-
Current update		1.5	3¼	3	1¾	1¾
Difference		+¾	+¾	+½	-½	-
General government net lending (% of GDP)	EDP B.9					
Previous update		-1.2	-1.5	-1.2	-1.1	-
Current update		-0.3	0.1	0.2	0.3	0.9
Difference		+0.9	+1.6	+1.4	+1.4	-
General government gross debt (% of GDP)						
Previous update		54.4	54.5	53.9	53.1	-
Current update		52.7	50.2	47.9	46.3	44.2
Difference		-1.7	-4.3	-6.0	-6.8	-

Alternative scenarios and risks including sensitivity of budgetary projections

Lower oil prices

An oil price of USD 70 per barrel (Brent) underlies the economic outlook for the short term. Recently, the oil price decreased to around USD 60 per barrel (Brent). The following table shows the consequences of lower oil prices for 2007. The falling oil price does not affect the EMU-balance. Improved economic outlook and tax revenues cancel out with falling gas revenues.

Table 4.2 Effects of a falling oil price (to USD 60 pb end 2007)

	2007
Gross Domestic Product (GDP)	+0.4
Private consumption	+0.5
Corporate investment	+1.6
Goods exports (excluding energy)	+0.6
Employment	+0.1
Consumer price index (CPI)	-0.5
Negotiated wage rate market sector	+0.1
General government balance (level, % of GDP)	0.0

Source: CPB Macro Economische Verkenning 2007

Appreciating euro

For the European economy in general but especially for the Dutch economy, developments in the competitive position are all-important. The nominal exchange rate is an important determinant of competitiveness in the short run. A shock to the dollar-euro exchange rate would have immediate repercussions for the European and Dutch competitive position. The table below analyses the economic effects of the euro gradually appreciating by 10 dollar cents in 2007. Both economic growth and growth of relevant world trade are negatively affected although falling import prices push up consumption.

Table 4.3 Appreciating euro (to average of 1,35 USD/€ in 2007)

	2007
Gross Domestic Product (GDP)	-0.3
Private consumption	+0.2
Corporate investment	+0.1
Goods exports (excluding energy)	-1.1
Employment	-0.1
Consumer price index (CPI)	-0.7
Negotiated wage rate market sector	-0.3
EMU balance (level, % of GDP)	-0.2

Source: CPB Macro Economische Verkenning 2007

Higher interest rate

Long-term interest rates have recently backtracked slightly from their historic lows but are still low by historical standards. The central projection in this update puts the long-term interest rate at 3¾% in 2006 and 4¼% in 2007, implying an upside risk for long-term interest rates. The table below shows the effects of an interest rate rise in the spring of 2007 and again in 2008.

Table 4.4 Effects of higher long-term rates (+½ pp in 2007 and +1 pp in 2008 compared to basis scenario)

	Cumulative divergences, %	
	2007	**2008**
Gross Domestic Product (GDP)	-0.4	-1.5
Private consumption	-0.4	-1.3
Corporate investment	-1.2	-4.6
Goods exports (excl. energy)	-0.7	-2.2
Employment	0.0	-0.4
Consumer price index (CPI)	-0.1	-0.3
Negotiated wage rate market sector	-0.3	-0.7
General government balance (level, % of GDP)	-0.2	-0.8

Source: Central Economic Plan 2005, original scenario based on an interest rate rise in the spring of 2005.

Chapter 5 Quality of public finances

Policy strategy

The quality of public finances is of central importance to this Cabinet. The policy agenda aimed at and resulted in more sustainable government finance, increased spending in priority areas like education, and an enhanced economic structure. Government outlays as a proportion of the economy decreased, making room for private initiative[13]. Social security expenditure increased by ½% of GDP per year, below the average government spending increase and far behind the increase in real GDP. Investment in infrastructure has been negatively affected by the finalizing of major projects and restrictions on new projections because of air quality considerations.

Table 5.1 Development of general government expenditure and revenues*

Expenditure category	**Yearly average, 2004 - 2007**	**2007**
Total revenues (level)	45.3	45.5
Total expenditures (level)	45.8	45.5
Total expenditures (Δ)	¾	1½
Of which:		
- Social security	½	1
- Interest expenditure	-1½	-1
- Health care	2½	3¼
- Education	1½	2¾
- Safety	2½	3¼
- Infrastructure	-1½	3
Real GDP	2½	3

* Percentage change year-on-year unless otherwise indicated

Developments on the expenditure side

In 2007, part of the increased revenues from natural gas will be spent on projects for spatial economic development and for education and innovation through the Economic Structure Enhancing Fund (*Fonds Economische* Structuurversterking/FES). The total investment from the FES in 2007 is €1.9 billion, or roughly 0.4% of GDP. Half of this (€950 million) will go to knowledge, innovation and education, education receiving the lion's share (€ 520 million), and half to spatial economic development. A significant share of the investments in spatial development (€776.5 million) will be used to accelerate investments in infrastructure. The investments from the FES in 2006 added up to €2.3 billion.

The introduction of the new Health Insurance Act, this year, marked the first step in future-proofing the healthcare system. Given the scale of the operation, the new system was introduced relatively smoothly. The mobility of policyholders - 18% of the insured switched insurer in the first year - gives

[13] For statistical reasons, the health care reform has lead to an one-time increase in the ratio of total government revenues and expenditures to GDP.

insurance companies an incentive to compete on price, service and quality. Thanks to the liberalisation of the care purchasing system, healthcare providers also have a direct incentive to deliver good and efficient healthcare services. The government is of course still responsible for guaranteeing the quality, accessibility and affordability of healthcare.

A series of measures to promote labour market participation were introduced this year or are in the process of implementation. Designed to encourage people to accept work, these measures include more stringent eligibility criteria for unemployment benefits and for disability insurance, shortening of the duration of unemployment benefits, and the abolition of tax benefits for early-retirement schemes.

The employer's contribution for child care will become mandatory as of 1 January 2007. This will create equality for all employees and reduce the administrative burden for employees and employers. The costs will not rise for companies already paying a contribution, while parents will pay less for child care. At the same time, child care subsidization will be raised by € 125 million.

Developments on the revenue side

Qualitative improvements have also been made on the revenue side. Inefficient or ineffective measures have been ended amounting to 0.6% of GDP in total. These measures included the limitation of mortgage deductibility (at the start of this Cabinet's term in office) and the abolishment of fiscal stimulus for early retirement (starting in 2006).

Moreover, the economic structure and the business climate are steadily improving in the Netherlands. The corporate tax base is expanding considerably. As part of a € 0.7 billion package of tax cuts, the general rate of corporate tax will be reduced to 25.5% and the lower rate (on profits up to €25,000) to 20%. Businesses that are liable for income tax on their profits will receive an exemption instead of a tax rate reduction. These measures are intended to improve the business climate in the Netherlands. An important principle behind these measures is that SMEs and large companies will profit equally.

Administrative burden

In the last three years the Dutch government has proposed a package of measures to significantly reduce red tape for businesses. The target is a reduction of 25%, or € 4 billion, in 2007. Several measures have yet been implemented easing the administrative burden by € 2.3 billion already. The Netherlands is well on course to meet its "minus 25%" target in 2007. The implementation of the remaining measures will follow in the remainder of 2006 and 2007. The Netherlands is also taking steps to reduce other regulatory costs. For example, projects are going on to eliminate conflicting regulations, to reduce inspection costs and to simplify licensing procedures.

Chapter 6 Sustainability of public finances

Policy strategy

The ageing of the Dutch population will put pressure on the sustainability of public finances. Demographic projections show that with unchanged policies the ratio of pensioners to working persons will double in the period to 2035. This will disrupt the balance between expenditure and income from tax and social security contributions, since spending on the state old-age pension (AOW) and health care will rise faster than the revenues from tax and social security contributions. The structural reforms of this government have significantly strengthened public finances and reduced the sustainability gap by 3.5 percent of GDP.

However, according to both the CPB's and the EPC/European Commission latest study on the effects of ageing, public finances are not yet sustainable[14]. The latest calculations show a sustainability gap of 1.5% of GDP in case of unchanged policies (current policies include a high structural primary surplus). The sustainability report of the European Commission in co-operation with the EPC calculated a sustainability gap rather close to this figure: 1.3% of GDP. This points to the need for further reforms.

Table 6.1 Sustainability of public finances

% of GDP	**2005**	**2010**	**2020**	**2030**	**2050**
Total expenditure*	46.1	46.2	48.0	50.3	51.4
Of which: - age related expenditure	20.5	20.6	22.4	24.7	25.8
Pension expenditures	7.4	7.6	9.0	10.7	11.2
Health care	6.1	6.3	6.7	7.1	7.4
Long term care	0.5	0.5	0.5	0.8	1.1
Total revenue*	44.4	44.0	43.5	43.5	42.8
Pension reserve fund assets	140.8	159.0	196.1	230.5	241.9
Assumptions					
Labour productivity growth	0.8	1.7	1.7	1.7	1.7
Real GDP growth	1.4	2.1	1.6	1.3	1.7
Total participation rates (aged 15 – 64)	77.1	77.8	79.1	79.3	80.5
Population aged 65+ over total population (%)	20.7	22.2	29.2	37.2	40.6

* These figures have not been published by the AWG. The method is known from the sustainability report 2006: the non-age related revenues and expenditures are kept constant at the 2005 level (taken from tabel a.3.5 of Public Finance Report 2006). Therefore, in this table the non-age related revenues and expenditures are set equal to the 2005 level from the latest economic outlook (MEV 2007). The age related revenues and expenditures are then added to reach the grand total.

[14] CPB (2006), *Ageing and the sustainability of Dutch public finances*

Comparing the CPB and EPC/EC studies

The Dutch government habitually bases its policy agenda on CPB projections. This is also true for the long term sustainability of public finances when faced with the challenge of ageing. However, the Netherlands welcomes the projections by the EPC and the European Commission (henceforth EPC/EC studies) which offer a welcome instrument for international comparison. Although the CPB and EPC/EC largely follow the same approach and show roughly the same policy challenge, the two studies differ in their model characteristics, analytical approach and underlying assumptions.

As regards the model[15], the difference is that CPB uses an overlapping generations, applied general equilibrium (OLG-AGE) model, GAMMA, and thus accounts for behavioural feedbacks of economic agents such as the effects of taxation on labour participation and private saving. The CPB thus carries out a more comprehensive analysis of the future development of tax bases. Moreover, GAMMA consistently models all sectors of the economy, so ensuring compliance with the intertemporal budget constraint across all sectors. The EPC/EC model does not include behaviour and contains a full account only of the government sector.

Another significant difference is the projection of government revenues. In the EPC/EC methodology, revenues are kept constant relative to GDP whereas the CPB methodology includes a number of additional features, such as the increase of indirect taxes and the decline of the revenues from natural resources, as expected in the coming decades. Moreover, the CPB explicitly relates revenues from financial assets to the size of these assets. This implies that rising revenues from this source entail the need for additional financial asset formation. The EPC/EC study includes this need only if it involves the assets of public pension funds.

As regards the analytical approach, there are similarities as well as differences. The major difference is the CPB 'sstudy's focus on not just sustainability but on the intergenerational distribution of welfare also. It explicitly presents the consequences of policies for separate cohorts. As regards the underlying assumptions, there are differences in the demographic development. This study shows slower growth of the elderly dependency ratio due to a more moderate increase in life expectancies. The projected development in labour market participation rates also differs. Importantly, as regards the discount rate, the two studies use the same approach and numerical assumptions, i.e. one uniform discount rate that applies to all actors in the economy and a discount rate of 3% in the whole projection period. The two studies also share a common rate of productivity growth of 1.7% a year.

[15] This section follows closely the text of CPB(2006)

Chapter 7 Institutional features of public finances

Introduction

In the Netherlands the budgetary rules are set at the beginning of the Cabinet's term in office. This year the government abides to the same rules as last year. One important institutional feature is the study group on the budget margin (Studiegroep Begrotingsruimte), consisting of high ranking civil servants, the CPB and Dutch Central Bank (DNB), which advises the incoming government on the budgetary framework and the budget margin. The last study group presented its advice for the period 2007 -2011 in June of this year. The study group identified ageing as the main challenge for public finances and proposed a three-pronged approach: reforming age-related institutions, increasing labour participation, and striving for a surplus on the budget (fully in line with the Stockholm European Council Conclusions). It suggested that, with a view to addressing the costs of ageing, the government should concentrate on reforming age-related institutions and increasing labour participation. A budget surplus was also deemed useful with a view to provide a safe margin to the 3% deficit threshold.

Budgetary rules during the current Cabinet's term

In its 2003 Coalition agreement, the Cabinet formulated the budgetary rules for its 2003-2007 term. The current rules are founded in the trend-based fiscal policy from the period 1994-2003. In the interest of an orderly and predictable budget process, budgetary decision-making, both on expenditures and revenues, takes place once during the spring, the so-called main decision-making moment. Furthermore, the budget is based on cautious assumptions and strictly segregates expenditures and receipts. Expenditures are limited by the aid of fixed real expenditure ceilings, set for the entire term, until end-2007, whereas on the revenue side (taxes and social insurance contributions) the automatic stabilisers are, in principle, permitted to operate freely. However, for the sake of caution and given European agreements, "freely" is subject to limitations.

The Cabinet also observes a set of detailed rules on budget discipline governing the daily budgetary situation. They provide that budgetary over- and underspending must be reported to the Minister of Finance in time and that each overrun must be compensated. These rules apply to the to the three so-termed budget discipline sectors: the narrowly defined Central Government Budget, Social Security and Labour Market Policy and the Health Care Sector. In the case of the narrowly defined Central Government Budget is concerned, the rules apply to each departmental budget and the appurtenant medium-term figures.

Expenditure limited by means of fixed ceilings

Budget expenditures are kept in check by means of fixed real expenditure ceilings. Actual expenditure (in nominal terms) is held up against these ceilings. To this end, real expenditures are adjusted for nominal developments. The price component of the National Expenditures is used as a measure of nominal developments. The spending ceilings are fixed for every budgetary year up to the end of 2007, when the Cabinet term ends. The framework applies to the three so-termed budget discipline sectors: the narrowly defined Central Government Budget, Social Security and Labour Market Policy and the Health Care Sector. Basically, a real spending ceiling is set for every sector, which may not be exceeded. If total setbacks exceed total windfalls within one of the three budget discipline sectors (or on a budget), austerity measures must be taken to compensate for the shortfall. Whether specific expenditures qualify under the spending framework depends, in principle, on whether they are relevant for the calculation of the general government balance; if so, they are also relevant for the expenditure framework.

Automatic stabilisation on the revenues side

Automatic stabilisers on the revenues side are taxes and social insurance contributions[16]. On the revenues side, the automatic stabilisers should be able to operate freely, with the proviso that, for the sake of caution, the term "freely" is limited by a signal value for the general government deficit of 2.5%. If this signal value threatens to be exceeded, the Cabinet takes further measures. The same applies if the necessary reduction of the structural balance, by 0.5% of GDP, threatens to fall through.

Testing expenditure ceilings

In the following table, the expenditures of the budget discipline sectors are held up against the expenditure ceilings for the period 2005-2007. For 2005, the table shows underspending below the overall ceiling of nearly EUR 1.5 billion. It is estimated that in 2006 the overall ceiling will almost be reached. In 2007underspending is expected. This means that for each of these three years, the expenditure ceiling provided for in the Coalition Agreement will be adhered to.

Table 7.1 Expenditure ceilings 2005-2007 broken down by budget discipline sector (EUR billion)

	2005	**2006**	**2007**
Expenditure ceiling narrowly defined Central Government Budget	94.5	97.7	101.8
Expenditure level narrowly defined Central Government Budget	93.0	97.6	100.9
Under/overspending	**-1.5**	**-0.0**	**- 0.9**
Expenditure ceiling Social Security and Labour Market	58.3	57.7	58.4
Expenditure level Social Security and Labour Market	57.4	56.8	58.4
Underspending	**-0.9**	**-0.9**	**0.0**
Expenditure ceiling Health Care	41.7	43.4	45.8
Expenditure level Health Care	42.3	44.1	46.4
Overspending	**0.6**	**0.6**	**0.6**
Expenditure reserve	0.0	0.0	0.0
Total over/underspending	**-1.9**	**- 0.3**	**- 0.3**

Separate arrangements for local government

The expenditure ceilings apply to the public sector, excluding local government. In the Netherlands, local government forms a separate layer of government, independent of central government[17]. Since the local government's balance on expenditure and revenues showed an unexpectedly large deficit of

[16] Non-tax revenues are netted with expenditures and form part of the expenditure framework,

0.6% of GDP in 2003, an administrative arrangement was concluded between the Cabinet and the representative organisations of the municipalities, provinces and water boards. The objective of this arrangement is to gain greater control over this balance. The parties involved monitor the local government's deficit to ensure that it does not exceed 0.5 percentage point of GDP. In addition, a working group is being formed to draw up a structural ceiling system to control the local government balance. It has also been decided that local government will provide more and better information about their expenditures and revenues.

Statistical governance

In the Netherlands, statistics on public finances in past years are compiled by Statistics Netherlands (CBS), the national statistical agency. The CBS also compiles quarterly figures on public finances. The CBS has the legal status of an independent public body and operates on the basis of an independent statute. Its independence allows it to compile reliable and qualitatively high-grade statistics on public finances. In 2005, the CBS and the Ministry of Finance concluded a protocol on the Netherlands' reports on the general government balance and debt (the semi-annual notifications on the general government deficit and debt, the quarterly public finance accounts and the 31 March report) to the European Commission. The protocol contains agreements about the responsibilities and division of tasks between the CBS and the Ministry of Finance regarding these reports. The Ministry of Finance compiles figures on public finance for the forecast years. These calculations are based on economic forecasts made by the CPB, which also has an independent statute.

The role of independent forecasts

The past few years have witnessed a discussion on the role of independent fiscal councils as guardians for sound budgetary policy making. At the beginning of this year the IMF took a closer look at the Dutch budgetary framework in its fiscal ROSC for the Netherlands[18]. One of the outstanding features according to this report was CPB's unique role in the policy making process owing to its technical reputation and its independence. The CPB provides the economic outlook as well as its own budgetary outlook. The economic outlook is the independent input into the budget making process, while the budgetary outlook provides an independent second opinion on the government's budget. Moreover, the CPB performs cost-benefit calculations of public investment projects. The IMF concludes: "the CPB appears to span the full spectrum of activities identified in the recent IMF's analysis of independent Fiscal Councils."

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[17] Local government is financed, for 80%, from central government transfers and, for 20%, from taxes which they levy themselves.

[18] IMF(2006), "The Netherlands - Report on the Observance of Standards and Codes – Fiscal Transparency Module"

ANNEX I Tables

Table A.1a Macroeconomic prospects

	ESA Code	2005 level	2005 rate of change	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change
Real GDP	B1*g	505.6	1.5	3¼	3	1¾	1¾
Nominal GDP (€ bln)	B1*g	505.6	3.2	4¾	4¾	3¼	3¼
Components of real GDP							
Private consumption expenditure	P.3	247.1	0.3	-1¼	2	1¼	1¼
Government consumption expenditure	P.3	121.8	0.3	9	2¼	1½	1½
Gross fixed capital formation	P.51	97.7	3.6	4¾	4	1¾	1¾
Changes in inventories	P.52+P.53	0.1	-0.2	¼	½	½	¼
Exports of goods and services	P.6	353.6	4.8	6¾	6¼	6	6
Imports of goods and services	P.7	314.6	4.3	6¾	6½	6	6
Contributions to real GDP growth							
Final domestic demand		466.7	1.2	2.5	2.2	1.6	1.6
Changes in inventories (Δ)	P.52+P.53	-1.2	-0.1	0.3	0.6	0	0
External balance of goods and services	B.11	40.0	0.3	0.3	0.2	0.1	0.1

Table A.1b Price developments

	ESA Code	2005 level	2005 rate of change	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change
GDP deflator		100	1.7	1¾	1¾	1½	1½
Private consumption deflator		100	1.6	2¼	2	1½	1½
HICP		100	1.5	1½	1¾	1¾	1¾
Public consumption deflator		100	2.2	1	2	2½	2½
Investment deflator		100	1.1	1½	1¼	¾	¾
Export price deflator		100	2.9	3¾	1¼	-1½	-1½
Import price deflator		100	3.1	4½	1¼	-1¾	-1¾

Table A.1c Labour market developments

	ESA Code	2005 level	2005 rate of change	2006 rate of change	2007 rate of change	2008 rate of change	2009 rate of change
Employment (x thousand persons)		6918	0.0	2	2	¼	¼
Employment (bln of hours worked)		11,1	-¼	1¾	1½	¼	¼
Unemployment (% of labour force)		483000	6.5	5½	4½	4½	4½
Labour productivity (persons)		61.6	3¼	2½	2¾	1½	1½
Labour productivity, hours worked			2.6	4½	3¾	1½	1½
Compensation of employees	D.1	252.2	1.7	1½	2¼	3¼	3¼

Table A.1d Sectoral balances

	ESA Code	2005	2006	2007	2008	2009
Net lending/borrowing vis-à-vis the rest of the world	B.9	6.9	6.9	6.7	7.1	7.5
Of which						
- Balance on goods and services		7.7	7.6	7.6	7.8	8.0
- Balance of primary incomes and transfers		-0.5	-0.4	-0.6	-0.4	-0.2
- Capital account*		-0.3	-0.3	-0.3	-0.3	-0.3
Net lending/borrowing of the private sector		7.6	7.1	6.8	7.1	6.9
Net lending/borrowing of general government		-0.3	0.1	0.2	0.3	0.9
Statistical discrepancy		0	0	0	0	0

* Based on Autumn Forecasts of 6 November 2006. For 2009 a technical extrapolation of the historical trend

Table A.2 General government budgetary prospects

	ESA Code	2005 level	2005 % of GDP	2006 % of GDP	2007 % of GDP	2008 % of GDP	2009 % of GDP
Net lending (EDP B9) by subsector							
1.General government	S.13	-1430	-0.3	0.1	0.2	0.3	0.9[19]
2. Central government	S.1311	691	0.1	0.3	0.7	0.6	1.1
3. State government	S.1312	M	M	M	M	M	M
4. Local government	S.1313	-1597	-0.3	-0.3	-0.3	-0.3	-0.3
5. Social security funds	S.1314	-524	-0.1	0.0	-0.3	0.0	0.0
General government (S13)							
6. Total revenue	TR	228337	45.2	46.4	45.8	45.9	46.2
7. Total expenditure	TE	229857	45.5	46.3	45.6	45.6	45.3
8. Net lending/borrowing	EDP B9	-1430	-0.3	0.1	0.2	0.3	0.9
9. Interest expenditure	EDP D.41 Incl. FISIM	11963	2.4	2.3	2.2	2.1	2.0
PM: 9a. FISIM		660	0.1	0.1	0.1	0.1	0.1
10. Primary balance		10533	2.1	2.4	2.4	2.4	2.9
Selected components of revenu							
11. 11=11a+11b+11c) Total taxes		124141	24.6	24.6	24.8	24.8	24.8
11a. Taxes on production and imports	D.2	63913	12.6	13.0	12.9	12.9	12.9
11b. Current taxes on income, wealth etc.	D.5	58518	11.6	11.6	11.9	11.9	11.9
11c. Capital taxes	D.91	1710	0.3	0.3	0.3	0.3	0.3
12. Social contributions	D.61	71386	14.1	15.6	14.9	14.9	14.9
13. Property income	D.4	11524	2.3	2.9	3.0	3.0	3.0
14. Other (14=15-(11+12+13))		21286	4.2	3.6	4.3	4.4	4.7
15.=6. Total revenue	TR	228337	45.2	46.4	45.8	45.9	46.2
PM: Tax burden (D.2+D.5++D.61+D.91-D995)		195527	38.7	39.9	39.4	39.4	39.4
Selected components of expenditure							
16. Collective consumption	P.32	53449	10.6	10.6	10.5	10.5	10.5
17. Total social transfers	D.62+D.63	97403	19.3	20.9	20.7	20.7	20.7
18.=9. Interest expenditure	EDP D.41 incl.	11963	2.4	2.3	2.2	2.1	2.0

[19] Including one-off of 0.3% GDP due to the receipt in 2009 of restitution EU own recources for the years 2007 and 2008

	Fisim						
19. Subsidies	D.3	6306	1.2	1.2	1.2	1.2	1.2
20. Gross fixed capital formation	P.51	16136	3.2	3.1	3.0	3.0	3.0
21. Other (21=22-(16+17+18+19+20))		44600	8.8	8.2	8.1	8.1	7.9
22.=7. Total expenditure	TE	229857	45.5	46.3	45.6	45.6	45.3

Table A.3 General government expenditure by function

% of GDP	COFOG Code	2004
1 General public service	1	8.0
2 Defence	2	1.4
3 Public order safety	3	1.8
4 Economic affairs	4	4.7
5 Environmental protection	5	0.8
6 Housing and community amenities	6	1.2
7 Health	7	4.4
8 Recreation, culture and religion	8	1.4
9 Education	9	5.2
10 Social protection	10	17.4
11 Total expenditure	TE	46.3

Table A.4 General government debt developments

% of GDP		2005	2006	2007	2008	2009
1. Gross debt		52.7	50.2	47.9	46.3	44.2
2. Change in gross debt ratio		+0.1	-2.5	-2.3	-1.6	-2.1
Contributions to changes in gross debt						
3. Primary balance (minus sign = surplus)		-2.1	-2.4	-2.4	-2.4	-2.9
4. Interest expenditure		2.4	2.3	2.2	2.1	2.0
5. Stock-flow adjustment		-0.2	-2.4	-2.1	-1.3	-1.2
Of which : - differences between cash and accruals		0.3	0.4	0.2	0.2	0.2
- Net accumulation of Financial assets		1.1	-0.5	-0.1	0.3	0.3
- Valuation effect and other (Of which denominator effect)		-1.6 (-1.6)	-2.3 (-2.3)	-2.3 (-2.3)	-1.7 (-1.7)	-1.7 (-1.7)
PM: implicit interest rate		4.4	4.3	4.3	4.3	4.3

Tabel A.5 Cyclical developments

	ESA Code	2005	2006	2007	2008	2009
Real GDP growth		1.5	3¼	3	1¾	1¾
Net lending of general government	EDP B.9	-0.3	0.1	0.2	0.3	0.9[20]
Interest expenditure	EDP D.41+FISIM	2.4	2.3	2.2	2.1	2.0
Potential GDP growth		1.8	2.1	2.1	2.0	1.9
Contributions to growth:						
- Labour		0.4	0.6	0.5	0.3	0.4
- Capital		0.6	0.6	0.7	0.7	0.7
- Total factor productivity		0.9	0.9	0.9	0.9	0.9
Output gap		-1.7	-0.7	0.2	0.0	-0.2
Cyclical budgetary component		0.9	0.3	-0.2	0.0	0.1
Cyclically-adjusted balance		0.6	0.4	0.0	0.3	0.7[21]
Cyclically-adjusted primary balance		3.0	2.7	2.2	2.4	2.7

Table A.6 Divergences from previous update

	ESA Code	2004	2005	2006	2007	2008
Real GDP growth (%)						
Previous update		1¼	1½	2½	2½	-
Current update		1.7	½	2½	2½	2¼
Difference		½	1	0	0	-
General government lending (% of GDP)	EDP B.9					
Previous update		-3.0	-2.6	-2.1	-1.9	-
Current update		-2.1	-1.2	-1.5	-1.2	-1.1
Difference		+0.9	+1.4	+0.6	+0.7	-
General government gross debt (% of GDP)						
Previous update		56.3	58.1	58.6	58.3	-
Current update		53.1	54.4	54.5	53.9	53.1
Difference		-3.2	-3.7	-4.1	4.4	-

[20] Including one-off of 0.3% GDP due to the receipt in 2009 of restitution EU own recources for the years 2007 and 2008
[21] Excluding one-off of 0.3% GDP due to the receipt in 2009 of restitution EU own recources for the years 2007 and 2008

Table A.7 Sustainability of public finances in the long term

% of GDP	2005	2010	2020	2030	2050
Total expenditure*	46.1	46.2	48.0	50.3	51.4
Of which: - age related expenditure	20.5	20.6	22.4	24.7	25.8
Pension expenditures	7.4	7.6	9.0	10.7	11.2
Social security expenditures	1.7	1.5	1.5	1.5	1.5
Old-age and early pensions	4.8	5.2	6.7	8.6	9.4
Other pensions (disability, survivors)	2.6	2.4	2.3	2.1	1.9
Occupational pensions	4.8	4.7	5.8	7.7	8.7
Health care	6.1	6.3	6.7	7.1	7.4
Long term care	0.5	0.5	0.5	0.8	1.1
Education expenditure	4.8	4.7	4.6	4.6	4.6
Other age-related expenditure	0	0	0	0	0
Total revenue*	44.4	44.0	43.5	43.5	42.8
Of which: property income	2.3	1.9	1.4	1.4	0.7
Of which: from pensions contributions	4.0	4.0	4.0	4.0	4.0
Pension reserve fund assets	140.8	159.0	196.1	230.5	241.9
Of which: consolidated public pension fund assets	0	0	0	0	0
Assumptions					
Labour productivity growth	0.8	1.7	1.7	1.7	1.7
Real GDP growth	1.4	2.1	1.6	1.3	1.7
Participation rate males (aged 15 -64)	84.0	83.1	82.8	82.2	83.2
Participation rate females (aged 15 – 64)	70.1	72.4	75.4	76.3	77.7
Total participation rates (aged 15 – 64)	77.1	77.8	79.1	79.3	80.5
Unemployment rate	3.5	3.2	3.2	3.2	3.2
Population aged 65+ over total population (%)	20.7	22.2	29.2	37.2	40.6

* These figures have not been published by the AWG. The method is known from the sustainability report 2006: the non-age related revenues and expenditures are kept constant at the 2005 level (taken from tabel a.3.5 of Public Finance Report 2006). Therefore, in this table the non-age related revenues and expenditures are set equal to the 2005 level from the latest economic outlook (MEV 2007). The age related revenues and expenditures are then added to reach the grand total.

Table A.8 External assumptions

	2005	2006	2007	2008	2009
Short-term interest rate (annual average)	2.2	3	3½	3½	3½
Long-term interest rate (annual average)	3.4	4	4¼	4¼	4¼
USD/€ exchange rate (annual average)	1.24	1.24	1.25	1.30	1.34
Nominal effective exchange rate	-0.4	-¼	¼	1	1
World GDP growth	4.7	5¼	4½	4½	4½
EU GDP growth	1.5	2¾	2½	2¼	2¼
World GDP growth excluding EU	4.0	4¾	4	4	4
Growth of relevant foreign markets*	7.4	9¼	8¾	5¾	5¾
World import volumes, excluding EU	9.4	10.5	10.4	8.25	8.25
Oil prices (Brent, USD per barrel)	54.4	68	70	68	65

* Taken to be equivalent to the Dutch "relevant wereldhandelsvolume"