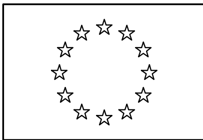

EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 6 February 2008
ECFIN/55716/08-EN

THE NETHERLANDS: MACRO FISCAL ASSESSMENT

AN ANALYSIS OF THE NOVEMBER 2007 UPDATE OF THE STABILITY PROGRAMME

The Stability and Growth Pact requires each EU Member State to present an annual update of its medium-term fiscal programme, called "stability programme" for countries that have adopted the euro as their currency and "convergence programme" for those that have not. The most recent update of the Dutch stability programme was submitted on 29 November 2007.

The attached technical analysis of the programme, prepared by the staff of, and under the responsibility of, the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission, was finalised on 6 February 2008. Comments should be sent to Bouke Buitenkamp (bouke.buitenkamp@ec.europa.eu). The main aim of the analysis is to assess the realism of the budgetary strategy presented in the programme as well as its compliance with the requirements of the Stability and Growth Pact. However, the analysis also looks at the overall macro-economic performance of the country and highlights relevant policy challenges.

The analysis takes into account (i) the Commission services' autumn 2007 forecast, (ii) the code of conduct ("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), and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances. Technical issues are explained in an accompanying "methodological paper" prepared by DG ECFIN.

Based on this technical analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 23 January 2008. The ECOFIN Council is expected to adopt its opinion on the programme on 12 February 2008.

* * *

All these documents, as well as the provisions of the Stability and Growth Pact, can be found on the following website:

http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm

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SUMMARY AND CONCLUSIONS

As part of the preventive arm of the Stability and Growth Pact, each Member State that uses the single currency, such as the Netherlands, has to submit a stability programme and annual updates thereof. The most recent programme, covering the period 2007-2010, was submitted on 29 November 2007.

Since 2006, Dutch GDP growth again significantly outpaces potential growth. The current upturn is generally assessed to be a regular cyclical upturn and is not widely mistaken for higher potential growth, as was the case during the rather long boom period at the end of the 1990s. Furthermore, it is more broadly based on both domestic and external sources of growth. However, given that the labour market is already rather tight (the unemployment rate was 3¼% in 2007), this may exert upward pressures on wages rather soon. Although the recent deterioration of the international economic environment dampens the risk of overheating and inflationary pressures have remained subdued to date (HICP inflation averaged 1.6% in 2007), expected wage pressures could pass through to consumer prices.

The macroeconomic scenario underlying the programme envisages that real GDP growth will slow down from 2¾% in 2007 to 2½% in 2008 and 1¾% over the rest of the programme period. Assessed against currently available information[1], this scenario appears to be based on plausible growth assumptions until 2008 and cautious growth assumptions thereafter. Given that there are already strong tensions in the Dutch labour market, the programme's projections for inflation of 2% from 2009 appear to be on the low side.

For 2007, the general government deficit is estimated at 0.4% of GDP in the Commission services' autumn 2007 forecast and in the programme (although the latter also mentions the latest official estimate of 0.2% of GDP). The previous update of the stability programme had targeted a surplus of 0.2% of GDP. The main factors contributing to this deterioration are expenditure overruns (especially in health care) and lower gas revenues, while tax revenues have turned out better than targeted. Although budgetary policy continued to respect its medium-term objective (MTO) in 2007, it was not in line with the invitation in the Council opinion of 27 February 2007 on the previous update of the stability programme[2], asking the Netherlands to maintain a strong structural position in 2007 (and beyond), thereby avoiding pro-cyclical fiscal policies in good times, since expenditure overruns were thus not avoided and unexpected extra revenues were only partially used to reduce government deficit and debt.

The main goal of the programme's budgetary strategy is to attain a structural surplus, that is, a cyclically-adjusted surplus net of one-off and other temporary measures, of 1% of GDP at the end of the planned government term, in 2011. Hence, throughout the programme, which covers the period until 2010, the Netherlands plans to fully respect its medium-term objective (MTO) for the budgetary position, which is a structural deficit

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[1] The assessment takes notably into account the Commission services' autumn forecast and the Commission assessment of the October 2007 implementation report of the national reform programme.

[2] OJ C 70, 27.3.2007, p. 21.

ranging from 0.5 to 1% of GDP. After the significant deterioration in 2007, the programme projects a return to small headline surpluses of 0.5 to 0.7% of GDP throughout the programme period. The primary balance follows a similar path, stabilising at 2¾% of GDP in 2008-2010. The previous update of the stability programme assumed a growth slowdown in 2008 rather than in 2009 and targeted a broadly balanced general government budget until 2008 and a surplus of almost 1% of GDP in 2009. In the current update, the headline adjustment over the programme period is fully revenue-based and front-loaded in 2008. It is mainly driven by increases in gas revenues, a discretionary increase in social contributions and favourable economic growth perspectives. Government expenditures are planned to be governed by expenditure ceilings in real terms, which have been defined for the whole government term in the draft budget for 2008.

The risks to the budgetary projections in the programme appear broadly balanced until 2008 whilst outcomes could be better than projected from 2009 onwards, as economic growth may be stronger than foreseen in the programme. This is partly compensated by the lack of detail regarding the planned measures. If economic growth turns out better than foreseen in the programme, this should be reflected in a better budgetary outcome from 2009 onwards in order to prevent a pro-cyclical stance of fiscal policy.

In view of this risk assessment, the budgetary stance in the programme seems sufficient to maintain the MTO by a sizeable margin throughout the programme period, as envisaged in the programme. The fiscal policy stance implied by the programme is in line with the Stability and Growth Pact throughout the period and also with the April 2007 Eurogroup orientations for budgetary policies.

Based on the information provided in the programme, the Netherlands appears to be at medium risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing is higher than the EU average, influenced notably by a relatively high increase in pension expenditure as a share of GDP over the coming decades. Yet, the projected future rise of tax revenues as a share of GDP, due to the deferred taxation of private pension, would partly compensate the increase in public expenditure over the long term. The budgetary position in 2007 as estimated in the programme, which is worse than the starting position of the previous programme contributes to offsetting the projected long-term budgetary impact of an ageing population but is not sufficient to cover the substantial increase in age-related expenditure, notably in view of the deterioration of the structural primary balance in 2007 compared to 2006. Ensuring higher primary surpluses over the medium term and/or implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing risks to the sustainability of public finances.

The October 2007 implementation report of the national reform programme identified as main priorities: improving labour supply; achieving faster growth in labour productivity, in particular by strengthening R&D, innovation and education; and improving price competitiveness, in particular by containing labour costs. In the Commission December 2007 strategic report, the Commission's concluded that the Netherlands made significant progress in implementing its national reform programme over the 2005-2007 period. The stability programme seems to be consistent with the October 2007 implementation report of the national reform programme. In particular, although the programme does not provide a qualitative assessment of the overall impact of the national reform programme, both documents discuss relevant subsets of the measures embodied in the governments' "six-pillar strategy" that overarches general government policies in the current

governments' term. Focusing on measures with a direct budgetary impact, both documents mention the phasing out of the transferability of the general tax credit over a period of 15 years starting in 2009. The stability programme in addition refers to plans to reduce unemployment contributions by employees and employers in 2009, which will be financed by an increase in the VAT rate in the same year. The budgetary strategy in the programme is broadly consistent with the broad economic policy guidelines included in the integrated guidelines for euro area Member States in the area of budgetary policies issued in the context of the Lisbon strategy.

The overall conclusion is that the programme aims at achieving and maintaining a broadly stable surplus, thereby ensuring a sound budgetary position throughout the period. While fiscal policy was pro-cyclical in good economic times in 2007, the budgetary stance in the programme from 2008 onwards is in line with the Pact. The risks to the budgetary targets seem broadly balanced in 2008. From 2009 onwards, if economic growth turns out better than the cautious economic scenario envisaged in the programme, this should be reflected in a better budgetary outcome than planned, thereby avoiding a pro-cyclical fiscal stance. As regards the long-term sustainability of public finances, the Netherlands appears to be at medium risk.

Comparison of key macro-economic and budgetary projections

		2006	2007	2008	2009	2010
Real GDP (% change)	**SP Nov 2007**	**3.0**	**2¾**	**2½**	**1¾**	**1¾**
	COM Nov 2007	3.0	2.7	2.6	2.5	n.a.
	SP Nov 2006	*3¼*	*3*	*1¾*	*1¾*	*n.a.*
HICP inflation (%)	**SP Nov 2007**	**1.7**	**1½**	**2¼**	**2**	**2**
	COM Nov 2007	1.7	1.6	2.3	2.7	n.a.
	SP Nov 2006	*1½*	*1¾*	*1¾*	*1¾*	*n.a.*
Output gap[1] (% of potential GDP)	**SP Nov 2007**	**-0.6**	**0.0**	**0.4**	**0.1**	**-0.4**
	COM Nov 2007[2]	-1.0	-0.4	0.0	0.3	n.a.
	SP Nov 2006	*-0.5*	*0.6*	*0.6*	*0.3*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Nov 2007**	**7.7**	**6.6**	**6.5**	**7.2**	**7.5**
	COM Nov 2007	7.3	6.6	7.2	7.9	n.a.
	SP Nov 2006	*6.9*	*6.7*	*7.1*	*7.5*	*n.a.*
General government balance (% of GDP)	**SP Nov 2007**	**0.6**	**-0.4**	**0.5**	**0.6**	**0.7**
	COM Nov 2007	0.6	-0.4	0.5	1.3	n.a.
	SP Nov 2006	*0.1*	*0.2*	*0.3*	*0.9*	*n.a.*
Primary balance (% of GDP)	**SP Nov 2007**	**2.8**	**1.8**	**2.7**	**2.7**	**2.7**
	COM Nov 2007	2.8	1.8	2.7	3.3	n.a.
	SP Nov 2006	*2.4*	*2.4*	*2.4*	*2.9*	*n.a.*
Cyclically-adjusted balance[1] (% of GDP)	**SP Nov 2007**	**1.0**	**-0.4**	**0.3**	**0.5**	**0.9**
	COM Nov 2007	1.1	-0.2	0.5	1.1	n.a.
	SP Nov 2006	*0.4*	*-0.1*	*0.0*	*0.7*	*n.a.*
Structural balance[3] (% of GDP)	**SP Nov 2007**	**1.0**	**-0.4**	**0.3**	**0.2**	**0.9**
	COM Nov 2007	1.1	-0.2	0.5	0.7	n.a.
	SP Nov 2006	*0.4*	*-0.1*	*0.0*	*0.4*	*n.a.*
Government gross debt (% of GDP)	**SP Nov 2007**	**47.9**	**46.8**	**45**	**43**	**41.2**
	COM Nov 2007	47.9	46.8	44.8	41.7	n.a.
	SP Nov 2006	*50.2*	*47.9*	*46.3*	*44.2*	*n.a.*

Notes:

[1]Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.

[2]Based on estimated potential growth of 2.1%, 2.2%, 2.2% and 2.2% respectively in the period 2006-2009.

[3]Cyclically-adjusted balance excluding one-off and other temporary measures. According to the most recent programme and the Commission services' autumn forecast, one-off and other temporary measures are 0.3% of GDP in 2009; deficit-reducing.

Source :
Stability programme (SP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations

1. INTRODUCTION

The November 2007 update of the Dutch stability programme was submitted to the Commission on 29 November 2007[3]. It covers the period 2007 to 2010 and also contains indications for the expected budgetary situation in 2011. The programme was agreed upon by the Council of Ministers and sent to parliament on 3 December 2007. It reflects the budgetary situation as it was presented in the 2008 draft budget presented in parliament on 18 September 2007, but it does not integrate budgetary information that has become available since. Most notably, although the recently published Autumn memorandum[4] is mentioned in the stability programme, the better-than-expected data reported therein was not incorporated in the programme's tables.

This assessment is further structured as follows. Section 2 discusses key challenges for public finances in the Netherlands, with a particular focus on fiscal policy and the risk of overheating. Section 3 assesses the plausibility of the macro-economic scenario underpinning the public finance projections of the stability programme against the background of the Commission services' economic forecasts. Section 4 analyses the budgetary implementation in the year 2007 and the medium-term budgetary strategy outlined in the new programme. Taking into account risks attached to the budgetary targets, it also assesses the appropriateness of the fiscal stance and the country's position in relation to the budgetary objectives of the Stability and Growth Pact. Section 5 reviews recent debt developments and medium-term prospects, as well as the long-term sustainability of public finances. Section 6 discusses the quality of public finances and structural reforms, while Section 7 analyses the consistency of the budgetary strategy outlined in the programme with the national reform programme and its implementation reports as well as with the broad economic policy guidelines. The annexes provide a detailed assessment of compliance with the code of conduct, including an overview of the summary tables from the programme (Annex 1) and selected key economic indicators of past economic performance (Annex 2).

2. KEY CHALLENGES FOR PUBLIC FINANCES WITH A PARTICULAR FOCUS ON FISCAL POLICY AND OVERHEATING

2.1. Introduction

Around the turn of the millennium, at the end of a rather long economic boom period, the Dutch economy experienced a period of overheating[5]. Product and labour markets were tight, pushing up wages and resulting in the highest inflation rate in the euro area. The strong economic performance raised government revenues temporarily, creating revenue surprises that were only partially saved. In the years 2001-2003, economic growth came to a near standstill, which adversely affected government revenues more rapidly than was

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3 Only an English version has been submitted.

4 The Autumn memorandum is a briefing to parliament on budgetary developments. It contains updated information on the development of government revenues and expenditures for the current year. The 2007 Autumn memorandum was sent to parliament on 26 November 2007.

5 See also Bethuyne, G. and Buitenkamp, B., "Smooth versus bumpy: differences in growth dynamics in Belgium and the Netherlands", *Country Focus*, European Commission – DG ECFIN, Vol. III, Issue 9, July 2006 and Albers R. and Langedijk, S. "The Netherlands, from riches to rags", *Country Focus*, European Commission – DG ECFIN, Vol. I, Issue 13, July 2004.

recognised at the time[6]. This resulted in an excessive deficit in 2003, requiring extensive fiscal consolidation in subsequent years, when the economic recovery was fragile and lacked strength.

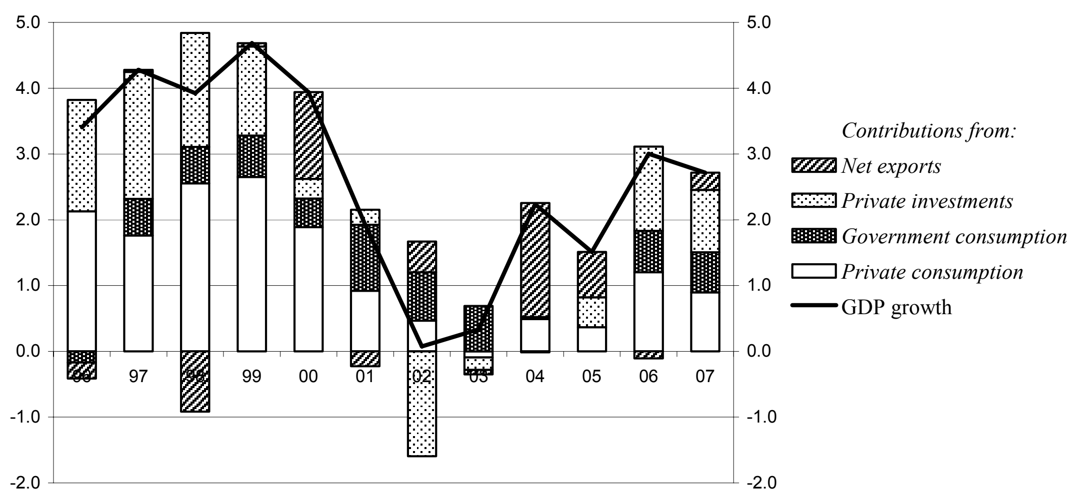
Since 2006, the Dutch economy is again experiencing a period of above-potential economic growth. Despite the fact that economic growth seems to be more broadly based, this high-growth period may not last as long as the previous one. Already in 2007, there are clear signs of tensions building up in the labour market, with continued strong labour demand while unemployment levels are already very low.

This section compares the current economic episode with the previous period of strong growth and analyses the budgetary policy lessons[7] that can be drawn from this comparison. The remainder of this section is organised as follows. Section 2.2 describes the recent economic experiences in the Netherlands, Section 2.3 discusses government revenues in light of the economic developments and Section 2.4 contains policy lessons.

2.2. Recent economic experience

During the second half of the 1990s, real annual GDP growth in the Netherlands averaged 4%, exceeding euro area economic growth by a significant margin. The upswing was driven by domestic demand, while the average contribution of net exports to GDP was slightly negative (Figure 1). Although several intertwined factors explain this development, wealth effects from equity and housing markets have played a crucial role.

Figure 1: Real GDP growth and contributions to growth



Note: The contributions from private and public consumption expenditure for 2006 have been corrected for the statistical effects of the health care reform that entered into force that year.
Source: Commission services

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6 See the European Commission (2006), European Economy 6/2006, 'The EU economy: 2006 review', pp. 268-273.

7 See for challenges facing Dutch public finances also the Economic Assessment of the Stability Programme of the Netherlands (Update of November 2006), especially pp.13-17.

The rise of double-income households in the 1990s – mainly the result of increased labour participation of women – increased household spending power. Moreover, the combination of the development of new mortgage products, the strong increase in housing prices and the fall in nominal interest rates led to significant re-mortgaging and equity withdrawal that fed into private consumption expenditure. De Nederlandsche Bank estimated that the annual spill-over effect of mortgage equity withdrawal on GDP growth via consumption expenditure was 0.5 to 1 percentage point in 1998–2000[8]. In that period, the stock market also advanced substantially and private ownership of equity increased steadily, which added to the spending surge of the Dutch consumer. A final contributing factor to private consumption growth was that full deductibility of interest payments not only covered mortgage-backed loans, but for all consumer loans. Both aspects provided further impetus to consumer spending, amplifying and possibly prolonging the economic boom. With the tax reform of 2001, which came when the Dutch economy was already slowing down, the deductibility of interest paid on consumer loans was abolished. The effect of this shift in policy on consumer spending was relatively minor, because the deductibility of interest paid on mortgages was largely left intact.

After 2000, the economy slowed down significantly. GDP growth plummeted to 0.1% in 2002, coming from 3.9% only two years earlier. In the years 2001-2003, GDP growth in the Netherlands was around 0.7 percentage points lower than the EU average. The very open Dutch economy was hit relatively hard by the international slowdown in those years and the long and hard fall of the stock market, but the downturn was also exacerbated by a slowdown in private equity withdrawal. This was related to the end of the housing boom, around the year 2000. The slowdown in equity withdrawal resulted in a negative contribution to GDP of around 0.5 of a percentage point per year in the period 2001-2003. Finally, the slowdown in the early 2000s was exacerbated by the need to significantly increase pension contributions following the evaporation of pension fund reserves[9] in the stock market crash of 2000.

Although the real economy was cooling down rapidly, both the labour market and price developments lagged significantly. The labour market needed more time to adjust to the new situation as employers were reluctant to let go personnel that they had so much difficulties in hiring only shortly before. This process of labour hoarding prolonged the tightness in the labour market and unemployment continued to fall while the real economy was already slowing. Unemployment hit the bottom in 2001, when it averaged 2.2% and total compensation of employees, which had been high since mid-1998 (Figure 2), continued to be significantly above the euro area average well into 2003. HICP inflation, which had remained well contained until mid-2000, followed with a two-year delay and reached a peak in 2001, when it averaged 5.1% over the year (Figure 3). In 2002, when real GDP growth was at a low of merely 0.1%, HICP inflation still averaged 3.9%. Only from 2003 onwards, when the economy already started its hesitant recovery, did price stability return and did the compensation of employees retreat.

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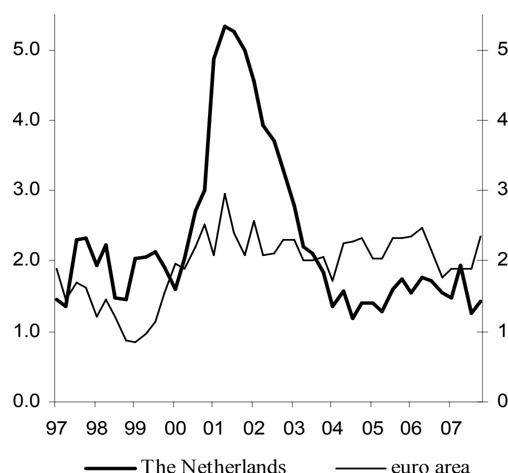
8 Els, P.J.A van, W.A. van den End and M.C.J. van Rooij, 2005, Financial behaviour of Dutch households: analysis of the DNB Household Survey. In: ‘Investigating the relationship between the financial and real economy’, BIS Papers, 22, 1-40.

9 Centraal Planbureau – CPB (2003), *Centraal economisch plan 2003*.

Figure 2: Compensation of employees and unemployment in the Netherlands

Source: Commission services

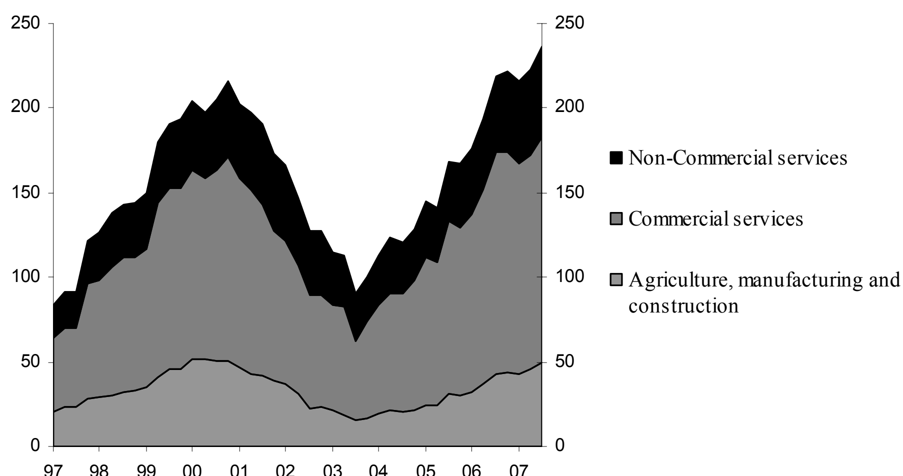
Figure 3: HICP inflation in the Netherlands and the euro area



Source: Commission services

Following a modest start of the economic recovery in 2004 and 2005, the recovery of the Dutch economy gained strength in 2006 and GDP growth turned out above potential, at 3%. The Commission services' autumn 2007 forecast foresees economic growth to continue to outpace potential over the whole forecast horizon (until 2009). As opposed to the boom period at the end of the 1990s, GDP growth in the current upturn does not predominantly rely on private consumption, but is more broadly based. However, just as in the previous period of high economic growth, the acceleration of GDP is accompanied by a strong demand for labour. This suggests that there could be some risks of overheating, even though they may be less prominent in view of the recent deterioration of the international environment. As the unemployment rate had only increased to around 5% in 2005 (Figure 2), strong labour demand quickly led to a tight labour market. By the end of 2006, the number of unfilled vacancies returned to the record levels that were recorded around the turn of the millennium (Figure 4) and in 2007, several industries have reported that labour shortages are restricting an expansion of production.

Figure 4: Number of unfilled vacancies in the Netherlands (1000s)



Source: Commission services

As in the previous economic upturn, wages only respond with a lag. Despite the fact that the tightness of the labour market has been apparent since the middle of 2006, unions have kept their collective wage demands relatively subdued into 2007. However, the scarcity of labour is increasingly pushing up wages and salaries. During 2007, evidence has mounted that contractual wages are accelerating. Furthermore, as the labour market continues to tighten, employers, in an attempt to lure employees away from other companies (or in order to prevent existing employees from job-hopping), are likely to turn more susceptible to wage demands from employees. Initially, the increase in wage growth will work to correct the disequilibrium in the labour market by reducing the demand for labour and encouraging labour supply. Given the dynamics of wage bargaining, with contracts typically spanning two, three or even more[10] years, there is a clear risk that wage developments will overshoot as they did in 2000 and 2001 and reduce labour demand by more than what is necessary to restore equilibrium in the labour market. Adding to the risk of a too strong wage response is the possibility that producers will pass on the increased cost of labour to consumers. If such a scenario unfolds at the time when economic growth is again receding, a similar situation as in 2000-2001 is likely to emerge, with both wages and prices increasing rapidly at a time when the economy is again slowing down.

2.3. Government revenues in light of the economic developments

The prolonged economic boom in the 1990s increased the total intake from several tax categories. The elasticity of total indirect tax revenues to GDP averaged 1.5 throughout the second half of the 1990s, markedly above the benchmark of 1[11]. This can in part be explained by economic policy. In that period, ‘green’ taxes were introduced and gradually stepped up. Furthermore, levies on fuels and tobacco were increased. However, also the underlying developments, i.e., adjusted for these policy changes[12], were relatively buoyant and remained well above the benchmark (Figure 5). This can be explained by the relatively tax-rich growth in that period. After all, consumption expenditure was relatively strong, yielding high VAT revenues. The converse happened in the years that followed, from 2000 to 2003. In those years, private consumption expenditure was relatively weak and the policy-adjusted elasticity of indirect taxes fell to an average of 0.6. However, further increases in environmental taxes, product levies and the increase in the highest VAT rate from 17.5% to 19% in 2001 (more than) compensated the underlying temporary fall in indirect tax revenues. Also the real estate transfer tax was affected by the specific nature of the economic boom and yielded high revenues in that period (Box 1). Policies towards increasing indirect taxes continued from 2004 onwards, raising the apparent elasticity to an average of 1.7 in those years.

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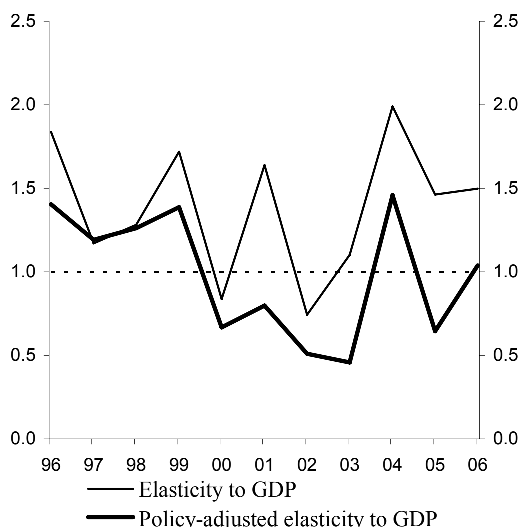
[10] The most recent collective wage contract for central government civil servants even runs into 2010, covering a four-year period.

[11] See the European Commission (2006), European Economy, ‘Public finances in EMU – 2006’.

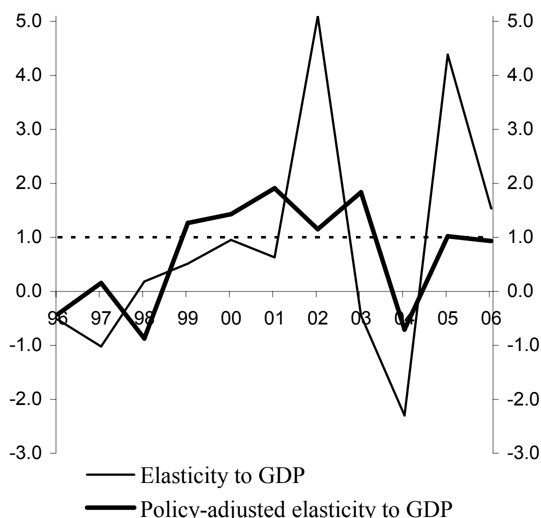
[12] For tax categories, the adjustment for policy measures was made using ex ante cash-based estimates in the Budgets of the respective years. Social premiums were corrected using estimates from the Netherlands Bureau of Policy Analysis (CPB).

Figure 5: Elasticity of indirect taxes to GDP



Source: Commission services

Figure 6: Elasticity of wage and income taxes to GDP



Source: Commission services

Direct tax categories showed a more diverse pattern. For the whole period up to and including 2001, the policy-adjusted elasticity of wage and income taxes to GDP was very low, implying that underlying tax revenues responded only partially to GDP developments (Figure 6). One major factor explaining the low tax collection from personal income taxes was the unlimited deductibility of debt service on mortgages (and until 2000 also on borrowing for consumption purposes). The housing boom and the accompanying changes to the structure of the mortgage markets led to an increase in deductible amounts and seriously eroded the personal income tax base[13] in that period. The strong upward jump in the apparent elasticity of wage and income taxes in 2005 was related to measures responding to the excessive deficit in 2003.

Box 1: The development of the real estate transfer tax

One component of indirect taxes that increased significantly in the second half of the 1990s is the real estate transfer tax. It is levied on transfers of existing dwellings and offices from one owner to another. During the whole period 1990-2006, the tariff remained unchanged at 6%. Nevertheless, the share of this tax in total indirect taxes more than doubled from 3% in 1990 to 6½% in 2005. This can be explained by the rapid increase in the tax base (total value of transferred real estate), resulting from the tripling of the average transaction price for private real estate sales. In fact, the tax base grew significantly faster than private consumption expenditure, which is a more conventional tax base for taxes on production and imports (see Figure).

[13] See the European Commission (2005), European Economy, 'Public finances in EMU – 2005'.

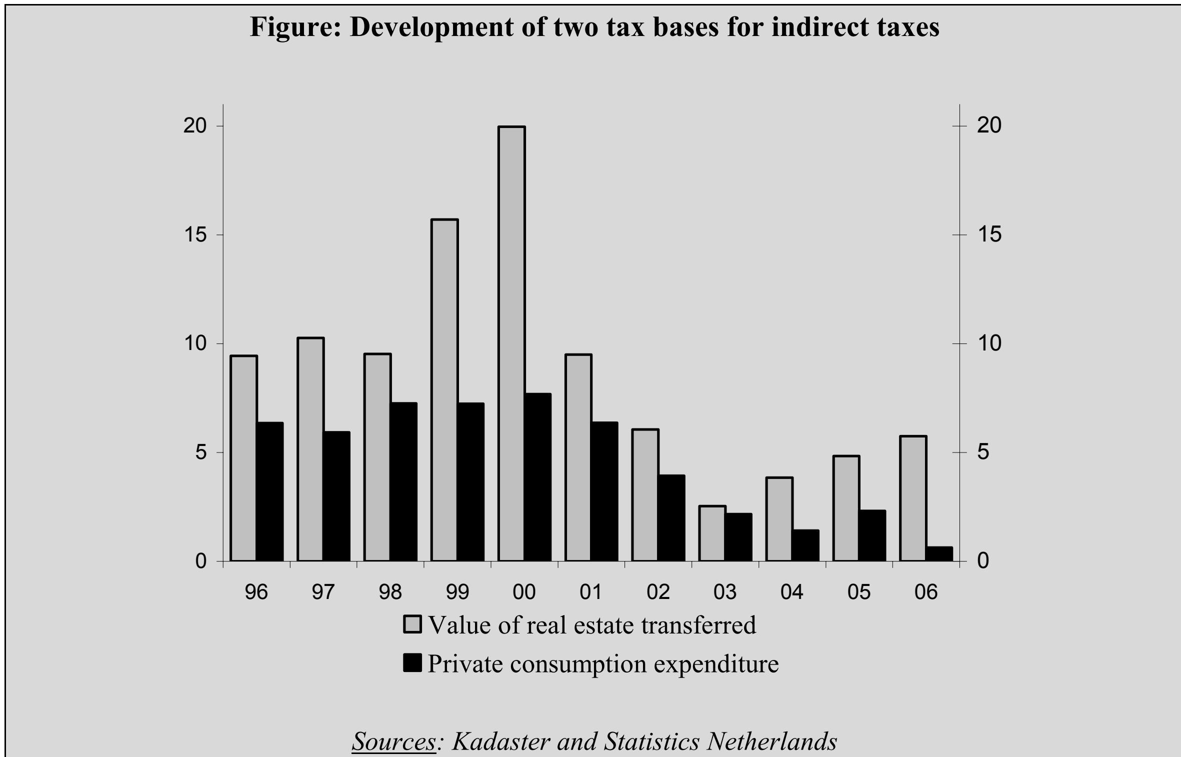
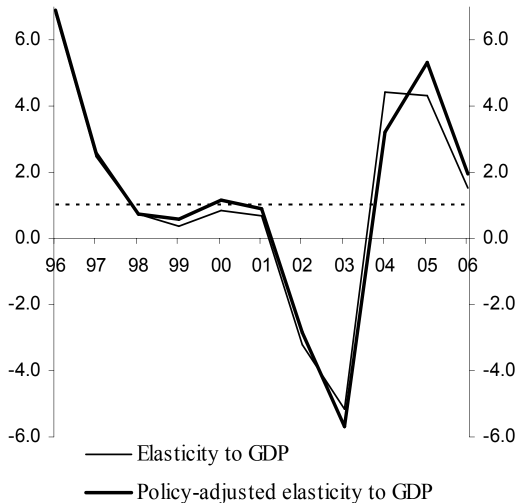


Figure: Development of two tax bases for indirect taxes

Sources: Kadaster and Statistics Netherlands

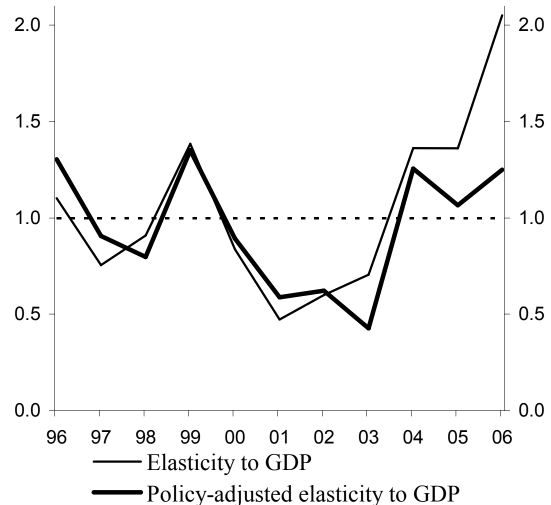
As for corporate tax revenues, they are known to be very volatile because of the options that corporations have to compensate losses in previous years, effectively allowing them to shift part of the tax burden intertemporally. The path of tax elasticities, both apparent and corrected for policy measures, confirms this (Figure 7).

Figure 7: Elasticity of corporate tax to GDP



Source: Commission services

Figure 8: Elasticity of total taxes and social premiums to GDP



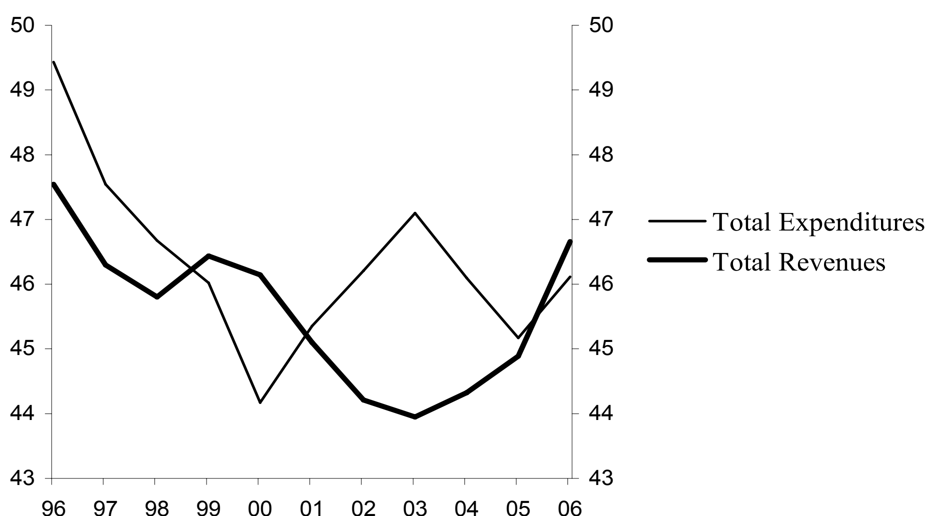
Source: Commission services

With indirect taxes that hovered above the benchmarks and direct taxes that were markedly below benchmark values, in the second half of the 1990s, the elasticity of total taxes and social premiums to GDP remained on balance relatively close to the benchmark of 1 (Figure 8). This result remains also valid if the figures are corrected for

the influence of policy interventions. After 2000, the regular pattern of cyclical tax elasticities re-emerged. With the slowdown of the economy, the overall tax elasticity fell to around 0.5, where it stayed until 2003. It increased to above 1 from 2004 onwards in line with the (hesitant) economic recovery at the time. The strong upward jump in apparent elasticity in 2006 is related to the reform of the health care sector, which nationalised previously private health care premiums.

During the second half of the 1990s, economic growth continued to surprise on the upside and most estimates of potential economic growth were revised upwards. In 2000, the Commission's potential growth estimates exceeded 3.5% for the period up to 2002. More and more, the strong revenues of earlier years were considered structural, also spurred by the strong budgetary outcome in 2000, when the general government balance improved by 1½% of GDP to a surplus of 2%. Of course, with the benefit of hindsight, the economic boom period from 1996 onward should not be classified as structural, but temporary. As government expenditures lagged economic growth and government revenues continued to surprise on the upside, government expenditure rose at a slower pace than revenues, actually implying budgetary consolidation until the year 2000. However, right as the economy started to slow down, total government expenditure growth started to increase pace, in the belief that the windfalls were the result of sustainable revenue growth. With the fall in the overall tax elasticity in the period 2000 to 2003, the ratio of total revenues to GDP also fell significantly (Figure 9).

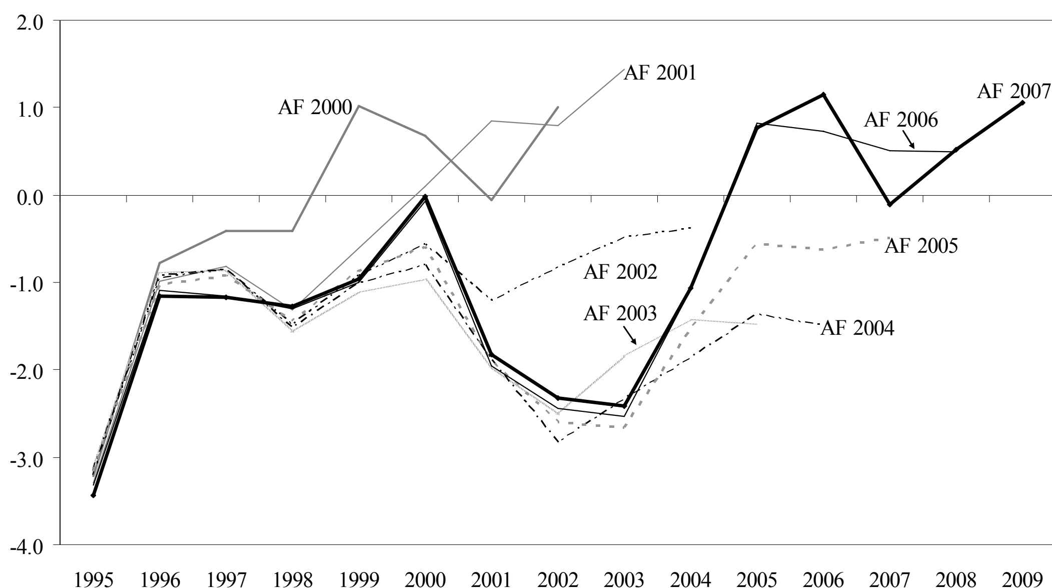
Figure 9: Ratio of government revenue and expenditure to GDP



Source: Commission services

The consequence was that cyclically-adjusted balances seemed very sound up until 2001, but fiscal policy turned out to be pro-cyclical *ex post* (Figure 10). Furthermore, the fiscal rule in place at the time implied that half of the higher-than-expected revenues was assigned to deficit reduction. This rule actually added to the pro-cyclical bias during the boom period since the remainder was spent. The economic 'bust' in the period 2001-2003 eventually resulted in an excessive deficit in 2003 (3.1% of GDP) and the Dutch government implemented a significant consolidation package in order to rectify the excessive deficit.

Figure 10: Evolution of cyclically adjusted balance in successive Commission services' autumn forecasts



Source: Commission services

In the period 2003 to 2005, the deficit was greatly reduced from 3.1% to 0.3% of GDP. As the fiscal consolidation had to be carried out during the hesitant recovery, Dutch public finances inevitably had a pro-cyclical impact. Since 2003, the national budgetary rules in the Netherlands have been strengthened[14] and the functioning of automatic stabilisers has improved. Further changes to the budgetary rules are planned by the current government that also eliminate the connection between the revenues from the sale of natural gas on the one hand and government investments on the other. As a temporary measure, such a scheme has been implemented for 2008. Furthermore, fluctuations in interest payments no longer affect the overall level of expenditures.

2.4. Policy lessons

As opposed to the boom period at the end of the 1990s, the current upturn is broadly based and widely assessed to be a regular cyclical upturn and to not reflect a more or less permanent increase in potential growth. There appears to be no indication that underlying potential growth has markedly increased. On the contrary, demographic changes indicate that in coming years potential growth will actually slow. In addition, tax elasticities seem to follow a normal, mildly cyclical pattern. From 2004 onwards, with the economy slowly gaining momentum, the overall tax elasticity corrected for policy measures increased modestly.

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[14] The main changes were the enhancement of automatic stabilisation on the revenue side, the introduction of separate criteria for tax spending and the introduction of a trigger value for the general government balance: if the deficit worsens to more than 2.5% of GDP, extra budgetary measures would be taken. (See also Section 6).

In recent years, government policy turned out pro-cyclical. In fact, in 2006 the medium-term budgetary framework did not prevent government expenditures from increasing in line with the strong economic upturn. The fact that the government balance nevertheless improved by almost 1% of GDP can be fully attributed to favourable tax elasticities and strong energy revenues. Regarding 2007, no operational budgetary ceilings were defined and the fiscal stance turned outright pro-cyclical (1.2% of GDP structural deterioration).

For the coming years, it is important for the Dutch government to prevent the spending of windfalls, e.g. from gas revenues and to allow automatic stabilisers to work freely. Furthermore, experience from the early years of this millennium showed that it is important to quickly recognise a possible economic slowdown. Rapid recognition of a slowdown may reduce or even eliminate the need for budgetary restraint at such a time.

3. MACRO-ECONOMIC OUTLOOK

This section assesses the plausibility of the macro-economic scenario (economic activity, labour market, costs and prices) underpinning the public finance projections of the programme. It also examines whether good or bad economic times in the sense of the Stability and Growth Pact prevail. Finally, it describes how the macro-economic vulnerabilities identified in the preceding section are expected to develop according to the programme.

3.1. Economic activity

After a growth realisation of 3.0% in 2006, the programme projects continued strong economic growth of 2¾% and 2½% in 2007 and 2008, respectively (Table 1). From 2009, growth is expected to slow to 1¾% of GDP. The programme indicates that the growth projection from 2009 reflects the latest medium-term scenario as developed by the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB)[15]. With the marked deceleration projected for 2009, the programme expects the period of above-potential growth to end after three years. The output gap implied by the programme update and recalculated by the Commission services on the basis of the commonly agreed methodology is assumed to improve from 0 in 2007 to 0.4 in 2008 and then, in line with the projected economic slowdown, to fall to 0.1 and -0.4 in 2009 and 2010, respectively.

Over the programme horizon, growth contributions from different domestic demand components and from net exports are similar to the averages over the past ten years. The most notable exception is private demand, which is assumed to grow by a mere 1¼% in 2008 and 2009, as compared to an average of 2.6% over the past ten years. However, it should be recalled that the historical average reflects a significant mortgage equity withdrawal over the period 1996 to 2000 that resulted in higher consumption growth (Section 2). The GDP growth pattern for 2007 and 2008 is highly similar to the projections in the Commission services' autumn forecast, which puts GDP growth at around 2.6 to 2.7% in those years. However, there appears to be no economic reason for the sudden growth slowdown in the programme to 1¾% in 2009. The projected slowdown brings the programme's GDP forecast ¾-percentage point below the

15 The external outlook behind the programme's macro economic scenario is broadly in line with that in the Commission services' autumn 2007 forecast.

Commission services' autumn 2007 forecast and around ½-percentage point below potential growth, implying a ½ percentage point worsening of the output gap in 2010. In light of very tight labour market conditions and the continued strong growth of the compensation of employees this growth forecast appears cautious. For 2010, the GDP growth projection in the programme implies a projected continuation of below-potential growth.

Table 1: Comparison of macro-economic developments and forecasts

	2007		2008		2009		2010
	COM	SP	COM	SP	COM	SP	SP
Real GDP (% change)	2.7	2¾	2.6	2½	2.5	1¾	1¾
Private consumption (% change)	1.9	2	2.0	2	1.6	1¼	1¼
Gross fixed capital formation (% change)	4.5	5¼	3.6	4¾	3.5	2	2
Exports of goods and services (% change)	6.3	6¼	5.5	6½	5.4	5¾	5¾
Imports of goods and services (% change)	6.7	6½	5.6	6	5.3	5½	5½
Contributions to real GDP growth:							
- Final domestic demand	2.4	2¼	2.3	2	2.1	1¼	1¼
- Change in inventories	0.1	0	0.0	0	0.0	0	0
- Net exports	0.3	½	0.3	½	0.5	½	½
Output gap[1]	-0.4	0.0	0.0	0.4	0.3	0.1	-0.4
Employment (% change)	2.0	2½	1.6	1¼	1.3	½	½
Unemployment rate (%)	3.1	3¼	2.7	2¾	2.4	3	3
Labour productivity (% change)	0.9	¼	1.0	1¼	1.2	1¼	1¼
HICP inflation (%)	1.6	1½	2.3	2¼	2.7	2	2
GDP deflator (% change)	1.4	1½	2.1	2	2.6	1¾	1¾
Comp. of employees (per head, % change)	2.6	2	3.4	4	3.8	3½	3½
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.6	6.6	7.2	6.5	7.9	7.2	7.5

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.

Source:

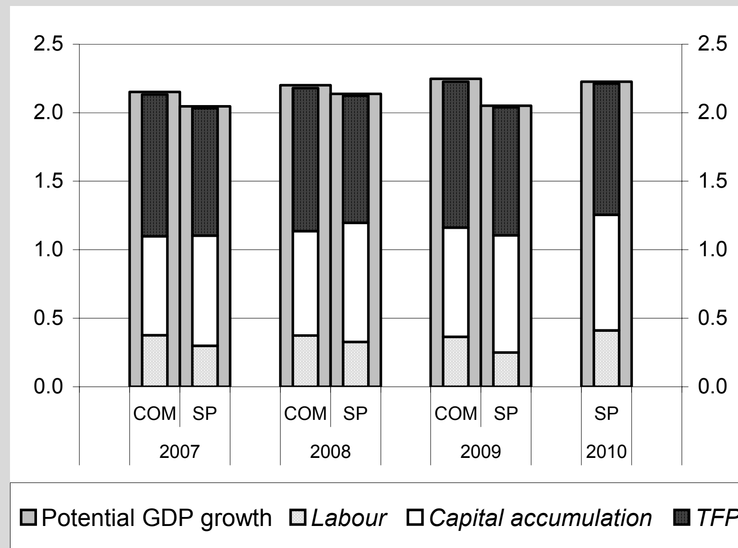
Commission services' autumn 2007 economic forecasts (COM); Stability programme (SP)

The programme's projection for private consumption growth in 2007 and 2008 is identical to the projection in the Commission services' autumn 2007 forecast. From 2009 onwards, private consumption growth slows in line with the overall slowdown of economic growth foreseen in the programme. Total compensation of employees per head is forecast to increase by 2% in 2007, slightly below the 2.6% in the Commission services' autumn 2007 forecast. In 2008, the difference is reversed and the programme assumes a 0.6 percentage point higher wage growth. In 2009 and 2010, despite the marked deceleration of economic growth in those years, compensation of employees is expected to remain strong at 3½%, similar to the autumn 2007 forecast. Overall, the programme's macro-economic assumptions are plausible until 2008 and cautious thereafter.

Box 2: Potential growth and its determinants

Potential output growth consistent with the programme's macro-economic scenario[16] is between 2 and 2¼% per year over the whole programme period, only marginally lower than potential growth estimates in the Commission services' 2007 autumn forecast (see graph).

Potential growth and its determinants



Average potential output growth over the programme period is below average output growth over the past ten years (2.6%, see Annex 2). However, it should be recalled that the historical average includes the long economic boom period of the second half of the 1990s, when significant mortgage equity withdrawal temporarily boosted economic growth.

The labour input contribution over the programme period is significantly lower than in the past two decades. This stems from the fact that the historical average includes the rise of labour participation since the mid-1980s, which acted as a significant boost to economic growth. Currently, with the ageing of the population starting to affect the size of the working age population and most gains from the increase of labour participation reaped, the contribution of labour to potential growth has fallen to around ¼% over the programme period. Capital accumulation contributes just under 1% per year to potential growth, reflecting strong planned investments and resulting in an increase in the investment ratio to potential GDP over the programme horizon.

In the years 2006 to 2008, the output gap implied by the programme (as recalculated by the Commission services on the basis of the data provided in the programme using the commonly agreed method) is around ½% of GDP higher than the output gap in the Commission services' autumn forecast. However, the economic growth assumptions and the composition of growth are highly similar in both forecasts, suggesting that this difference should be considered technical rather than substantial. The evolution of the output gap over time is virtually identical in both forecasts for the period 2006 to 2008. For 2009, the significant difference in the economic growth forecasts (of ¾ percentage points) resulted in a divergent change in output gap. In the programme, the output gap

[16] According to the Commission services' recalculations using the commonly agreed methodology based on the information provided in the programme.

worsens, while in the Commission services autumn 2007 forecast it continues to improve in 2009[17].

One possible risk to the outlook in 2008, which is also recognised in the programme, is the possibility that recent financial market distress raises global risk aversion, which in turn increases risk premiums, lower equity prices and reduce world trade. Using estimates of the Netherlands' Bureau for Economic Policy Analysis, the programme concludes that this could lead to a one percentage point reduction in Dutch economic growth in 2008.

3.2. Labour market and cost and price developments

The programme projects that the good economic growth performance in 2007 goes hand in hand with strong employment growth in 2007, of 2½%, which is around half a percentage point higher than in the Commission services' autumn forecast. From 2008 onwards, employment growth is expected to fall significantly, to a mere ½% in 2009 (compared to 1.3% in the Commission services' autumn forecast), and to remain at that low growth level in 2010 as well. Averaging over the programme' horizon, this amounts to a similar employment growth as observed in the past ten years.

The labour content of real GDP growth, calculated as the percentage increase in employment vis-à-vis the percentage increase in real GDP, is on average 0.7 in 2007 and 2008, which is in line with historical averages and the labour content of growth as estimated in the Commission services' autumn forecast. For the years 2009 and 2010, however, the labour content of economic growth is around 0.3, which appears low in historical context. The programme points to the current tightening of the labour market, with vacancies at a record level and the unemployment rate falling from 3.9% in 2006 to 2¾% in 2008 and rising slightly thereafter, to 3%. This pattern is in line with the expected improvement in the output gap in the years 2007 and 2008 and the projected below-trend growth thereafter. In the Commission services' autumn 2007 forecast, unemployment is projected to fall to 2.7% in 2008 and 2.4% in 2009, stimulated by economic growth that remains above potential.

Labour productivity growth is expected to increase from a mere ¼% in 2007 to its long-term historical value of 1¼% in the period 2008 to 2010. For 2007, this is relatively low in view of the tight labour market conditions that typically act to improve labour productivity growth. For 2009 and 2010, labour productivity growth seems to be high in relation to the projected slowing of the economy in the programme, but in line with the Commission services' autumn forecast that only projects a very moderate slowdown. Compensation per employee is forecast to increase in 2008 to 4% and remain strong at 3½% until the end of the programme horizon. This figure seems to partly reflect continued upward wage pressures that arise from tight labour market conditions.

In light of the expected increase in the compensation of employees and the fact that the programme assumes slightly benign[18] energy prices to prevail from 2009 onwards, price

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[17] There are persistent small differences between the programme's output gaps as recalculated by the Commission services and the programme's output gaps as presented in the programme itself. The output gaps presented in the programme are around ¼% of potential GDP lower (more pessimistic) each year in the period 2006 to 2009; there is no difference for the year 2010.

developments in the programme appear benign in 2009 and 2010, when HICP inflation is projected to come out at 2%. This implies slightly easing price pressures at a time when the labour market is still very tight and falling import prices in those years. In contrast, in the Commission services autumn forecast, HICP inflation is projected to increase from 2.3% in 2008 to 2.7% in 2009, mainly because wage developments are expected to be more pronounced and import prices are assumed to increase over the forecast horizon.

3.3. Macro-economic challenges

At the end of the long boom period of the 1990s, potential growth estimates were raised, suggesting that Dutch trend GDP growth would be in excess of 3.5%. The sharp economic slowdown that followed from 2001 onwards clearly falsified those optimistic assessments. The current economic upswing is not associated with higher trend growth estimates. Recent estimates put trend GDP growth at around 2 to 2¼% (Commission services' autumn 2007 forecast). This implies that the economic upswing that started in 2006, with GDP growth of 2¾% to 3%, should be considered temporary as actual GDP growth is clearly above trend GDP growth. Indeed, in the current programme update, GDP growth is projected to fall to below-trend growth from 2009 onwards, clearly suggesting that the temporary nature of the current upswing is entrenched in the programme. Hence, the risk of overestimating trend GDP growth seems limited.

Rather, the sudden slowdown in projected economic growth from 2009 to 1¾% introduces the risk that GDP growth may turn out higher than projected. As outlined in previous sections, the Dutch economy is beginning to shows signs of overheating. The labour market has turned very tight, almost reaching the same level as in 2001. Just as in 2001, wage growth can be expected to increase, resulting in more buoyant consumption and economic growth in the medium term than foreseen in the programme. If economic growth turns out higher, the impact of the tight labour market on wage and price developments is likely to also worsen the international competitive position of the Netherlands. Furthermore, economic growth that is based more on private consumption growth can be expected to be relatively tax-rich and raise tax elasticities.

Box 3: Good or bad economic times?

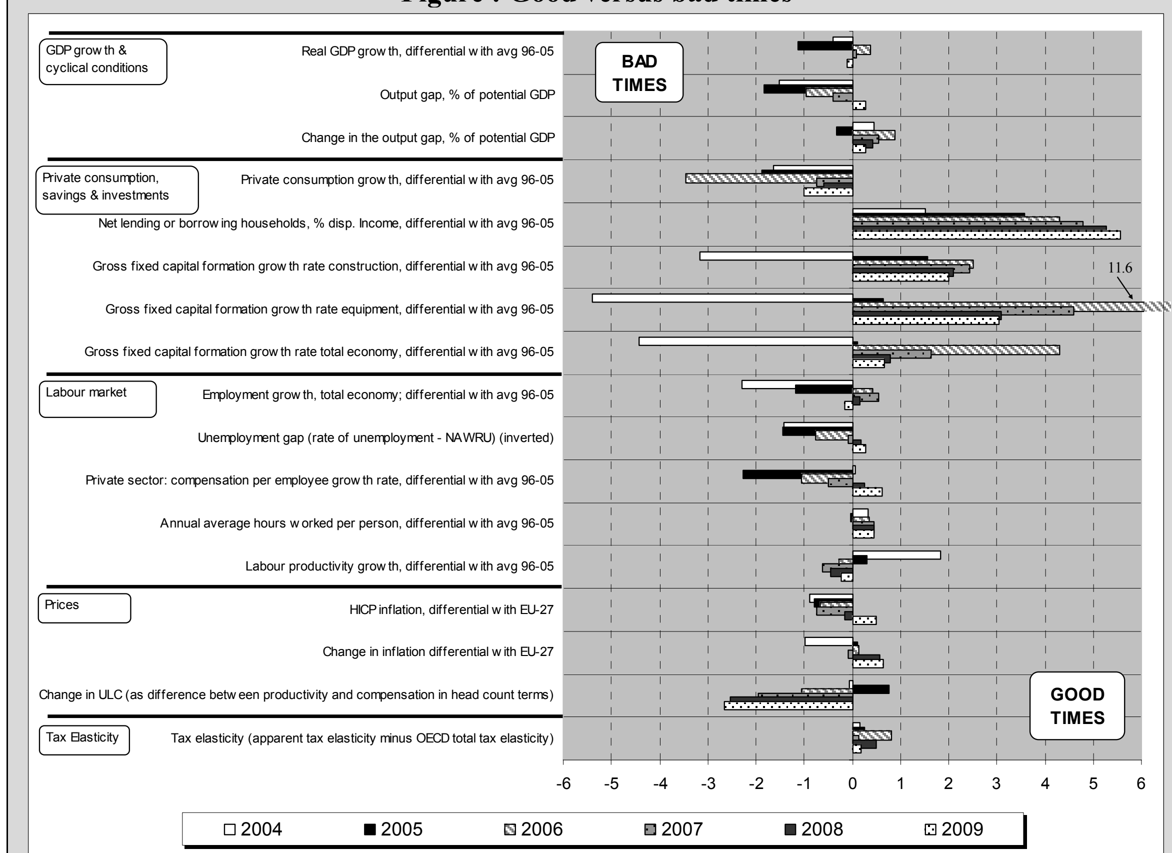
According to the code of conduct, the assessment of whether the economy is experiencing good or bad economic times starts from the output gap, but draws on an overall economic assessment, which should also take into account tax elasticities. The figure below presents a set of macro-economic indicators drawn from the Commission services' autumn 2007 forecast. Overall, the economy seems to be in good economic times taking into account tax elasticities in the period 2007-2009.

After a low in 2005, the output gap (as estimated by Commission services' autumn forecast) is projected to continuously improve until 2009. It is expected to close fully by 2008 and improve to 0.3 in 2009. The positive dynamics that emerge from output gap developments are confirmed by a broader perspective on the Dutch economic developments. The economic recovery turned into a strong above-potential growth in the course of 2006 and is accompanied by buoyant gross fixed capital formation and net borrowing by households. Furthermore, labour market indicators clearly point to continued strong employment growth while unemployment is at a historical low. Finally, the composition of growth suggests that the tax system may yield

[18] In the programme, oil prices are expected to fall from $75 (€56) in 2008 to $65 (€47) in 2009, while the external assumptions of the Commission Services' autumn 2007 forecast put oil prices at $76 (€54) in 2009.

somewhat higher tax revenues than implied by standard elasticities, corroborating the assessment that the economy is experiencing good economic times.

Figure : Good versus bad times



4. General government balance

This section consists of four parts. The first part discusses budgetary implementation in the year 2007 and the second presents the medium-term budgetary strategy in the new update. The third analyses the risks attached to the budgetary targets in the programme. The final part assesses the appropriateness of the fiscal stance and the country's position in relation to the budgetary objectives of the Stability and Growth Pact.

4.1. Budgetary implementation in 2007

Table 2 compares the 2007 revenue and expenditure targets (as a percentage of GDP) from the previous update of the stability programme with those in the current update of the stability programme. The difference between the revenue and expenditure targets for 2007 and the projected outcome is decomposed into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect[19]:

- The base effect captures the part of the difference that is due to the actual outcome for 2006 being different from what was projected in the previous update in the programme (either because the actual revenue/expenditure level in 2006 was different

[19] A fourth, residual component is usually small, except if there are very large differences between the autumn forecast and the target (the full mathematical decomposition is in the methodological paper mentioned above).

from the estimated outturn in the previous programme or because GDP turned out to be different from the scenario in the previous update of the programme). The base effect therefore also captures the effect of revisions to the GDP series.

- The GDP growth effect on the denominator captures the part of the difference that is related to current GDP growth projections for 2007 turning out higher or lower than anticipated in the previous update of the programme (therefore reducing / increasing the denominator of the revenue and expenditure ratio).

- The revenue / expenditure growth effect captures the part of the difference related to the revenue / expenditure growth rate in 2007 turning out to be higher or lower than targeted in the previous update of the programme. This would typically be due to GDP developments different from those expected in the previous update of the programme, or as a result of apparent tax elasticities different from the ex ante tax elasticities (or both).

Table 2: Budgetary implementation in 2007

	2006		2007	
	Planned SP Nov 2006	**Outcome** SP Nov 2007	**Planned** SP Nov 2006	**Outcome** SP Nov 2007
Revenue (% of GDP)	46.4	46.7	45.8	45.9
Expenditure (% of GDP)	46.3	46.1	45.6	46.3
Government balance (% of GDP)	0.1	0.6	0.2	-0.4
Nominal GDP growth (%)			4.8	4.3
Nominal revenue growth (%)			3.4	2.5
Nominal expenditure growth (%)			3.2	4.7
Revenue surprise compared to target (% of GDP)			**0.1**	
Of which [1] *:* 1. Base effect			0.3	
2. GDP growth effect on the denominator			0.2	
3. Revenue growth effect			-0.4	
Of which: due to a marginal elasticity of total revenue w.r.t. GDP larger than 1 [2]			*-0.2*	
Expenditure surprise compared to target (% of GDP)			**0.7**	
Of which [1] *:* 1. Base effect			-0.2	
2. GDP growth effect on the denominator			0.2	
3. Expenditure growth effect			0.6	
Government balance surprise compared to target (% of GDP)			**-0.6**	
Of which: 1. Base effect			0.5	
2. GDP growth effect on the denominator			0.0	
3. Revenue / expenditure growth effect			-1.0	

Notes:

[1] A positive base effect points to a higher-than-anticipated outcome of the revenue / expenditure ratio in 2006. A positive GDP growth effect (on the denominator) indicates lower-than-anticipated economic growth in 2007. A positive revenue / expenditure growth effect points to higher-than-anticipated revenue / expenditure growth in 2007. The three components may not add up to the total because of a residual component, which is generally small.

[2] Equal to (2)+(3). A positive sign means that the marginal elasticity of revenue with respect to GDP exceeds one.

Source:
Commission services

In the current update of the stability programme, the general government balance in 2007 is estimated at a deficit of 0.4% of GDP. This is markedly below the target set in the November 2006 update, which was a surplus of 0.2% of GDP. The central government balance actually worsened 0.8%, which was partly compensated by a 0.2% of GDP better outcome of lower levels of government. The estimated outturn in the new programme is fully in line with the latest Commission services' autumn forecast, which also forecasts a

budgetary deficit of 0.4% of GDP. However, the update of the stability programme also refers to the Ministry of Finance's 2007 Autumn Memorandum, which was sent to parliament shortly before the submission of the stability programme and which projects a deficit of 0.2% of GDP, i.e. 0.2% of GDP better than in the programme[20].

The decomposition of the 0.6% of GDP worse outturn for the government balance (Table 2) shows that this worsening took place against a background of a positive base effect from 2006, as the budgetary outturn for 2006 was 0.5% of GDP higher than anticipated in the previous update. The worse budgetary outcome is explained by government expenditures that are 0.6% of GDP higher than anticipated. Furthermore, revenues were 0.4% of GDP lower than expected in the budget for 2007[21]. Hence, the combined revenue/expenditure growth effect is -1.1% of GDP. Finally, the GDP growth effect on the denominator is negligible as the economic outcome is almost the same as anticipated (in the programme, GDP is now projected to grow by 2¾% in 2007, only slightly lower than the 3% growth anticipated in the previous programme).

In the programme, total government revenues from taxes and social premiums are expected to outperform the target set in the Budget for 2007. However, total revenues do not come out much higher owing to lower-than-expected gas revenues. Gas revenues are known to be volatile, owing to the fact that the gas prices move in tandem with price developments of other energy products. In recent years, the strong increase in energy prices has raised gas revenues to roughly 1½% of GDP in 2006. In 2007, record high average temperatures in the northern hemisphere reduced the volume of gas production, unexpectedly lowering gas revenues to around 1¼% of GDP in 2007 even at a time when energy prices were at a historical high.

Overall, total government expenditures are expected to be higher than anticipated in the budget for 2007 due to overruns in several areas, including housing and spatial planning, defence, education, health care and increased expenditures for state pensions. Partly compensating for the expenditure overruns in these areas, some expenditure categories were lower than anticipated. Due to delays in the construction of several large infrastructure projects and a lack of projects that fit the criteria of the Economic Structure Enhancing Fund (Fonds Economische Structuurversterking, FES), spending from the infrastructure fund and the FES fund was below target. The carry-over of this saving into future years is unknown. On the one hand, it may be expected that these projects will be undertaken later, weighing on the nominal government balance in later years. On the other hand, delays may be expected to persist, in which case the carry-over may be negligible.

The Council opinion of 27 February 2007 on the previous update of the stability programme invited the Netherlands to maintain a strong structural position in 2007 and beyond, thereby avoiding pro-cyclical fiscal policies in good times. The invitation of the Council was not followed. While being in economic good times, the budgetary position in 2007 deteriorated substantially, and resulted in a clearly pro-cyclical stance. According to the autumn 2007 forecast, the structural balance deteriorated by 1.2% of

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[20] Although the programme explicitly refers to these figures that were made available before the programme was submitted, they are not incorporated in the programme's tables.

[21] If the 0.2% of GDP better projected outcome in the Autumn memorandum was taken into account, this would reduce the negative revenue growth effect as the better outcome is largely revenue-based.

GDP, which is much more than the anticipated 0.5% deterioration when the invitation was issued (see also Table 3 in the next section).

4.2. The programme's medium-term budgetary strategy

This section describes the medium-term budgetary strategy outlined in the programme - and how it compares with the one in the previous update - as well as the composition of the budgetary adjustment, including the broad measures envisaged.

4.2.1. The main goal of the programme's budgetary strategy

The main goal of the programme's budgetary strategy is to attain a structural surplus of 1% of GDP at the end of the planned government term, in 2011[22]. This goal was set by the new government upon taking office in February 2007 in view of the ageing of the Dutch population, which puts pressure on the sustainability of public finances. The previous programme update also identified the cost of ageing as the single most important challenge and pointed to the need for further fiscal consolidation. The Dutch authorities have kept their MTO at the interval -0.5 to -1% of GDP, but explicitly recognise in the programme that it may not be sufficient to ensure the long-term sustainability of public finance in light of the costs of ageing.

Table 3: Evolution of budgetary targets in successive programmes

		2006	2007	2008	2009	2010
General government balance (% of GDP)	**SP Nov 2007**	**0.6**	**-0.4**	**0.5**	**0.6**	**0.7**
	SP Nov 2006	*0.1*	*0.2*	*0.3*	*0.9*	*n.a.*
	COM Nov 2007	0.6	-0.4	0.5	1.3	n.a.
General government expenditure (% of GDP)	**SP Nov 2007**	**46.1**	**46.3**	**46.4**	**46.3**	**46.5**
	SP Nov 2006	*46.3*	*45.6*	*45.6*	*45.3*	*n.a.*
	COM Nov 2007	46.1	47.0	47.4	46.9	n.a.
General government revenue (% of GDP)	**SP Nov 2007**	**46.7**	**45.9**	**46.9**	**46.9**	**47.2**
	SP Nov 2006	*46.4*	*45.8*	*45.9*	*46.2*	*n.a.*
	COM Nov 2007	46.7	46.7	47.9	48.1	n.a.
Structural balance[1] (% of GDP)	**SP Nov 2007**	**1.0**	**-0.4**	**0.3**	**0.2**	**0.9**
	SP Nov 2006	*0.4*	*-0.1*	*0.0*	*0.4*	*n.a.*
	COM Nov 2007	1.1	-0.2	0.5	0.7	n.a.
Real GDP (% change)	**SP Nov 2007**	**3.0**	**2¾**	**2½**	**1¾**	**1¾**
	SP Nov 2006	*3¼*	*3*	*1¾*	*1¾*	*n.a.*
	COM Nov 2007	3.0	2.7	2.6	2.5	n.a.

Note:

[1]Cyclically-adjusted balance excluding one-off and other temporary measures. Cyclically-adjusted balances according to the programmes as recalculated by the Commission services on the basis of the information in the programmes. According to the most recent programme and the Commission services' autumn forecast, one-off and other temporary measures are 0.3% of GDP in 2009; deficit-reducing.

Source:
Stability programmes (SP); Commission services' autumn 2007 economic forecasts (COM)

In 2008, significant budgetary consolidation is planned, after a sharp deterioration of the general government balance in 2007 (by 1 percentage point of GDP, see Table 3),

[22] Although the main goal in the programme refers to the year 2011, the November 2007 programme update only covers the period 2007 - 2010.

bringing the budget balance back to 0.5% in 2008, almost returning to the 2006 level. The programme foresees a gradual further consolidation in 2009 and 2010, to 0.6% and 0.7%, respectively[23]. As is indicated in the programme, the figure for 2007 should be considered outdated as the latest official estimate of the budget balance in 2007 is a deficit of 0.2% of GDP ('Autumn memorandum'). The primary balance follows a similar pattern and is set to reach 2.7% of GDP from 2008 onward (Table 4).

In line with the autumn 2007 forecast, the programme expects a positive one-off in 2009 related to the reduction in the annual contribution of the Netherlands to the EU budget 2007-2013 according to the Council decision on the EU own resources. To enter into force, the Council decision has to be ratified by each Member State. The update of the stability programme expects this process to be finalised by 2009 and yield a structural fall in expenditures of little under 0.2% of GDP per year. As the Council decision should enter into force retroactively from 1 January 2007, retributions over the period 2007-2008 are expected to be paid out in 2009. These retributions constitute a one-off revenue of 0.3% of GDP in 2009 and are as such identified in the update of the stability programme.

In 2008, the structural balance (Commission services' calculations on the basis of the information in the programme according to the commonly agreed methodology) is expected to recover half of the 1½% of GDP deterioration in 2007 and improve to a surplus of around ¼% in 2008 and 2009. In 2010, the structural balance is targeted to increase to around 1% in 2010 (Table 3). If this consolidation at the end of the programme period is carried out, the structural balance will have returned to its 2006-level.

The structural balance does not correct for volatile revenue components. However, it needs to be recognised that the Dutch budget strongly relies on gas revenues. The structural improvement in 2008 can for around ¼ of a percentage point of GDP be attributed to an expected increase in gas revenues. Although a new period of high temperatures and/or an unexpected fall in energy prices may reduce gas revenues over the programme period, planned gas revenues in the programme are based on realistic energy prices and even cautious ones from 2009 onwards[24]. In all, after a strongly expansionary fiscal stance in 2007, fiscal policy turns restrictive in 2008, is broadly neutral in 2009 and restrictive again in 2010.

As compared to the previous update of the stability programme, the current update assumes GDP growth of 2½% in 2008, while in the previous programme GDP growth was assumed to turn out at only 1¾% (Table 3). This is reflected in a stronger budgetary improvement (of 0.9% of GDP rather than 0.1% of GDP). For 2009, based on identical economic growth assumptions, the previous update targeted a 0.6% of GDP nominal strengthening, which in the current update has been reduced to a marginal improvement (0.1% of GDP). In structural terms, the targeted ½% of GDP deterioration in 2007 in the

[23] The programme also provides most budgetary data for the year 2011, when it targets a nominal surplus of 1%. However, budgetary targets for 2011 cannot be scrutinized, as the programme does not disclose the underlying economic growth scenario.

[24] In the programme, oil prices are assumed to increase from \$69 (€51) in 2007, to \$75 (€56) in 2008 and subsequently fall to \$65 (€46-€47) in both 2009 and 2010. In the Commission services autumn 2007 forecast, assumed oil prices in euro are identical in 2007 and 2008, while being higher in 2009 (€54 or \$76).

previous update is now estimated at a deterioration of 1½% of GDP in the current update. Finally, the ½% of GDP structural improvement targeted for 2009 in the previous update is now backloaded to 2010, with a targeted flat evolution in 2009.

Table 4: Composition of the budgetary adjustment

(% of GDP)	2006	2007	2008	2009	2010	Change: 2010-2007
Revenue	**46.7**	**45.9**	**46.9**	**46.9**	**47.2**	**1.3**
of which:						
- Taxes on production and imports	12.8	13.1	13.2	13.8	13.8	**0.7**
- Current taxes on income, wealth, etc.	11.7	12.0	12.0	11.9	11.8	**-0.2**
- Social contributions	15.1	14.5	14.9	14.4	14.8	**0.3**
- Other (residual)	7.1	6.3	6.8	6.8	-5.2	**-11.5**
Expenditure	**46.1**	**46.3**	**46.4**	**46.3**	**46.5**	**0.2**
of which:						
- Primary expenditure	43.9	44.1	44.2	44.2	44.5	**0.4**
of which:						
Compensation of employees	9.4	9.3	9.3	9.4	9.5	**0.2**
Intermediate consumption	7.2	7.1	7.1	7.1	7.0	**-0.1**
Social payments	20.8	21.0	21.2	21.2	21.4	**0.4**
Subsidies	1.2	1.3	1.3	1.3	1.3	**0.0**
Gross fixed capital formation	3.3	3.3	3.2	3.2	3.2	**-0.1**
Other (residual)	2.1	2.1	2.1	2.1	2.1	**0.0**
- Interest expenditure	2.2	2.2	2.2	2.1	2.0	**-0.2**
General government balance (GGB)	**0.6**	**-0.4**	**0.5**	**0.6**	**0.7**	**1.1**
Primary balance	**2.8**	**1.8**	**2.7**	**2.7**	**2.7**	**0.9**
One-off and other temporary measures	0.0	0.0	0.0	0.3	0.0	**0.0**
GGB excl. one-offs	**0.6**	**-0.4**	**0.5**	**0.3**	**0.7**	**1.1**
Output gap[1]	-0.6	0.0	0.4	0.1	-0.4	**-0.4**
Cyclically-adjusted balance[1]	1.0	-0.4	0.3	0.5	0.9	**1.3**
Structural balance[2]	**1.0**	**-0.4**	**0.3**	**0.2**	**0.9**	**1.3**
Change in structural balance		*-1.4*	*0.7*	*0.0*	*0.7*	
Structural primary balance[2]	3.2	1.8	2.5	2.3	2.9	**1.1**
Change in structural primary balance		*-1.4*	*0.7*	*-0.1*	*0.6*	

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance as recalculated by Commission services on the basis of the information in the programme.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability programme; Commission services' calculations

4.2.2. The composition of the budgetary adjustment

The envisaged consolidation over the programme horizon is more than fully explained by an increase in the revenue-to-GDP ratio of 1.3%, which mainly stems from a 1 percentage point of GDP rise in the total revenue ratio in 2008. The total revenue ratio is expected to increase further by 0.3 percentage points in 2010 when social contributions as a percentage of GDP increase. The rise in the revenue-to-GDP ratio is partly compensated by a 0.2% of GDP increase in the expenditure-to-GDP ratio over the programme horizon.

The analysis of revenue and expenditure ratios is complicated by the fact that the programme mostly presents cumulative effects of measures over the whole planned government term, i.e. until 2011, whereas the programme update only covers the period up to 2010. Information regarding implementation years and budgetary effects therefore had to be complemented with information from other sources, such as the draft budget 2008.

The planned increase in overall government revenues in 2008, of 1 percentage point of GDP, can in part be related to higher planned gas revenues, as a return to normal production volumes is assumed. As a result, property income is planned to increase by 0.4 percentage points in 2008. Another factor that raises overall government revenues is the planned increase in social contributions, of 0.4 percentage points of GDP. This increase reflects higher estimated health care expenses in 2008, but also covers losses from earlier years, when health care premiums had been set too low. Finally, an increase in other government revenues and increases in several 'green' taxes slightly raises overall revenue of taxes on production and imports by 0.2 percentage points.

In 2009, an increase in the VAT rate by one percentage point is planned, in combination with a reduction of the unemployment insurance premium paid by employees from 3.5% in 2008 to 0% (hence effectively abolishing the unemployment insurance premiums for employees). This raises total taxes on production and imports, while at the same time lowering social contributions. The combined effect of these two measures on overall government revenues is planned to be negligible. An additional downward effect on social contributions is the planned reduction of health care premiums, bringing them back to a level that matches planned health care costs.

In the programme update, social contributions increase again in 2010. This can be traced to the planned abolishment of the exceptional expenses deductible (which mainly pertains to exceptional health care expenses) in 2009. This will be apparent in revenues from social contributions only from 2010 onwards, as the deductible is typically refunded in the year following the one in which the exceptional expenses are incurred. This explains up to 0.3 percentage points of the increase in social contributions in 2010, which underpins the nominal consolidation in that year.

The programme gives a detailed account of expenditure increases in six priority areas, which the new government identified upon taking office in February 2007. These accounts cover the total expenditure impulse in both 2008 and 2011, of 0.5% of GDP in 2008 and 1.1% of GDP in 2011. However, no information is available on the evolution of expenditures in these priority areas in 2009 and 2010. Furthermore, there is no annual breakdown available of the expenditure cuts that are needed in other areas to fund their planned extra outlays. Only planned expenditure cuts over the whole government term are provided. This information is also not available from other sources. The planned budgetary consolidation seems to be supported by a broad indication of measures (that appear to be fully in line with the government declaration and the budget for 2008), but a detailed annual analysis over the period 2008-2010 can neither be made on the basis of the programme nor on the basis of other sources.

Box 4: The budget for 2008

The draft budget for 2008 was presented on 18 September 2007 and was adopted in parliament on 23 November 2007.

The budget for 2008 targets a surplus of 0.5% of GDP in 2008, implying a significant budgetary consolidation. The table below specifies the main measures. The consolidation is planned to be

fully achieved through revenue measures and higher gas revenues. Although the 2008 budget plans extra expenditures, they are foreseen to be financed by (not yet fully detailed) savings in 2008. The 2008 budget raises or introduces a variety of taxes and increases health care premiums to compensate for higher expenditures. Overall, the government balance is expected to improve by nearly 1% of GDP.

Main measures in the budget for 2008

Revenue measures*	**Expenditure measures****
o Increase in duties on tobacco, alcohol and fuels (0.1% of GDP) o Introduction of a tax on disposable packaging and airport tax (0.1% of GDP) o Increase in health care premiums (0.4% of GDP) o Changes to the wage and income taxes, e.g. reduction of first tax bracket rate and increasing the rate of the second tax bracket (0.2% of GDP)	o Higher health care expenditures (0.1% of GDP) o Increase in disability benefits (0.1% of GDP) o Increase in education expenditures (0.1% of GDP)

* Estimated impact on general government revenues.
** Estimated impact on general government expenditure.
Sources: Commission services and Budget 2008.

4.3. Risk assessment

This section discusses the plausibility of the programme's budgetary projections by analysing various risk factors. For the period until 2009, Table 5 compares the detailed revenue and expenditure projections in the Commission services' autumn 2007 forecast, which are derived under a no-policy change scenario, with those in the updated programme.

As concluded in Section 3 above, the macro-economic scenario appears plausible for 2007 and 2008 and somewhat cautious thereafter. Therefore, from 2009 onwards there is the possibility that the economic scenario may turn out to be more favourable, implying an upward risk to the general budget from the economic scenario. Commission services' simulations of the cyclically-adjusted balance under the assumptions of (i) a sustained 0.5 percentage point upward deviation from the real GDP growth projections in the programme over the 2007-2010 period; (ii) trend output based on the HP-filter and (iii) no policy response (notably, the expenditure level is as in the central scenario) reveal that, by 2010, the cyclically-adjusted balance would be 0.7 percentage point of GDP above the central scenario.

As already indicated in Section 4.2.2 above, the programme does not provide sufficient information about all the measures supporting the envisaged consolidation, but most information regarding planned measures for 2008 is available in the draft budget for 2008 and the quantification contained in the draft budget for 2008 appears plausible. For 2009 and beyond, the lack of clarity regarding the planned year of implementation of several measures implies the risk that remaining controversial measures may be back loaded or dropped altogether at the end of the government's term. The lack of information regarding planned measures constitutes a limited downward risk to the budgetary outcome for 2009 and 2010.

Table 5: Comparison of budgetary developments and projections

(% of GDP)	2006	2007		2008		2009		2010
	COM	COM	SP	COM	SP	COM[1]	SP	SP
Revenue	**46.7**	**46.7**	**45.9**	**47.9**	**46.9**	**48.1**	**46.9**	**47.2**
of which:								
- Taxes on production and imports	12.8	12.8	13.1	12.9	13.2	13.1	13.8	13.8
- Current taxes on income, wealth, etc.	11.7	12.0	12.0	12.4	12.0	12.8	11.9	11.8
- Social contributions	15.1	15.1	14.5	15.4	14.9	15.2	14.4	14.8
- Other (residual)	7.1	6.9	6.3	7.2	6.8	7.0	6.8	6.8
Expenditure	**46.1**	**47.1**	**46.3**	**47.4**	**46.4**	**46.9**	**46.3**	**46.5**
of which:								
- Primary expenditure	43.9	44.9	44.1	45.3	44.2	44.8	44.2	44.5
of which:								
Compensation of employees	9.4	9.4	9.3	9.4	9.3	9.3	9.4	9.5
Intermediate consumption	7.2	7.5	7.1	7.6	7.1	8.0	7.1	7.0
Social payments	20.8	20.6	21.0	20.7	21.2	20.3	21.2	21.4
Subsidies	1.2	1.2	1.3	1.1	1.3	1.1	1.3	1.3
Gross fixed capital formation	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2
Other (residual)	2.1	3.0	2.1	3.2	2.1	3.0	2.1	2.1
- Interest expenditure	2.2	2.2	2.2	2.2	2.2	2.0	2.1	2.0
General government balance (GGB)	**0.6**	**-0.4**	**-0.4**	**0.5**	**0.5**	**1.3**	**0.6**	**0.7**
Primary balance	**2.8**	**1.8**	**1.8**	**2.7**	**2.7**	**3.3**	**2.7**	**2.7**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0
GGB excl. one-offs	**0.6**	**-0.4**	**-0.4**	**0.5**	**0.5**	**0.9**	**0.3**	**0.7**
Output gap[2]	-1.0	-0.4	0.0	0.0	0.4	0.3	0.1	-0.4
Cyclically-adjusted balance[2]	1.1	-0.2	-0.4	0.5	0.3	1.1	0.5	0.9
Structural balance[3]	**1.1**	**-0.2**	**-0.4**	**0.5**	**0.3**	**0.7**	**0.2**	**0.9**
Change in structural balance		*-1.3*	*-1.4*	*0.7*	*0.7*	*0.2*	*0.0*	*0.7*
Structural primary balance[3]	3.3	2.0	1.8	2.7	2.5	2.8	2.3	2.9
Change in structural primary balance		*-1.3*	*-1.4*	*0.6*	*0.7*	*0.1*	*-0.1*	*0.6*

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability programme (SP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations

The role of one-off and other temporary measures is insignificant over most of the programme horizon. Merely the expected refunding in 2009 of EU taxes paid over the period 2007-2008, amounting to 0.3% of GDP, is considered to be a one-off revenue (Table 5). The yield of this one-off should be considered certain.

In the Commission services' autumn 2007 forecast, the ratio of overall tax revenues to GDP increases by around 1% in 2008 (Table 6), which stems in part from continued buoyant economic growth that pushes up tax elasticities and from planned consolidating measures. In the programme, this ratio also increases, but only by 0.5% in 2008. Further analysis of the difference suggests that in the programme revenues from corporate and income taxes are lower while the evolution of the overall general government balance

seems to reflect overall planned measures. For 2009, the increase in the tax-to-GDP ratio in the programme is also smaller than in the Commission services' autumn 2007 forecast, which follows from a smaller discretionary and elasticity component. The primary reason for this difference is the significantly lower economic growth forecast in the programme, which lowers the overall tax elasticity and hence tax revenues. As such, it mirrors the upward risk to the budgetary outcome stemming from the cautious macro-economic scenario in 2009.

Table 6: Assessment of tax projections

	2008			2009			2010
	SP	**COM**	**OECD[3]**	**SP**	**COM[1]**	**OECD[3]**	**SP**
Change in tax-to-GDP ratio (total taxes)	0.5	1.0	0.0	0.0	0.4	0.0	0.3
Difference (SP – COM)	-0.5		/	-0.4		/	/
of which [2]:							
- discretionary and elasticity component	*-0.6*		*/*	*-0.3*		*/*	*/*
- composition component	*0.2*		*/*	*0.1*		*/*	*/*
Difference (COM - OECD)	/	0.9		/	0.3		/
of which [2]:							
- discretionary and elasticity component	*/*	*0.6*		*/*	*0.3*		*/*
- composition component	*/*	*0.4*		*/*	*0.3*		*/*
p.m.: Elasticity to GDP	1.3	1.5	1.0	1.0	1.2	1.0	1.2

Notes:

[1]On a no-policy change basis.

[2]The composition component captures the effect of differences in the composition of aggregate demand (more tax rich or more tax poor components). The discretionary and elasticity component captures the effect of discretionary fiscal policy measures as well as variations of the yield of the tax system that may result from factors such as time lags and variations of taxable income that do not necessarily move in line with GDP, e.g. capital gains. The two components may not add up to the total difference because of a residual component, which is generally small.

[3]OECD ex-ante elasticity relative to GDP.

Source:

Commission services' autumn 2007 economic forecasts (COM); Stability programme (SP); Commission services' calculations; OECD (N. Girouard and C. André (2005), "Measuring Cyclically-Adjusted Budget Balances for the OECD Countries", OECD Working Paper No. 434).

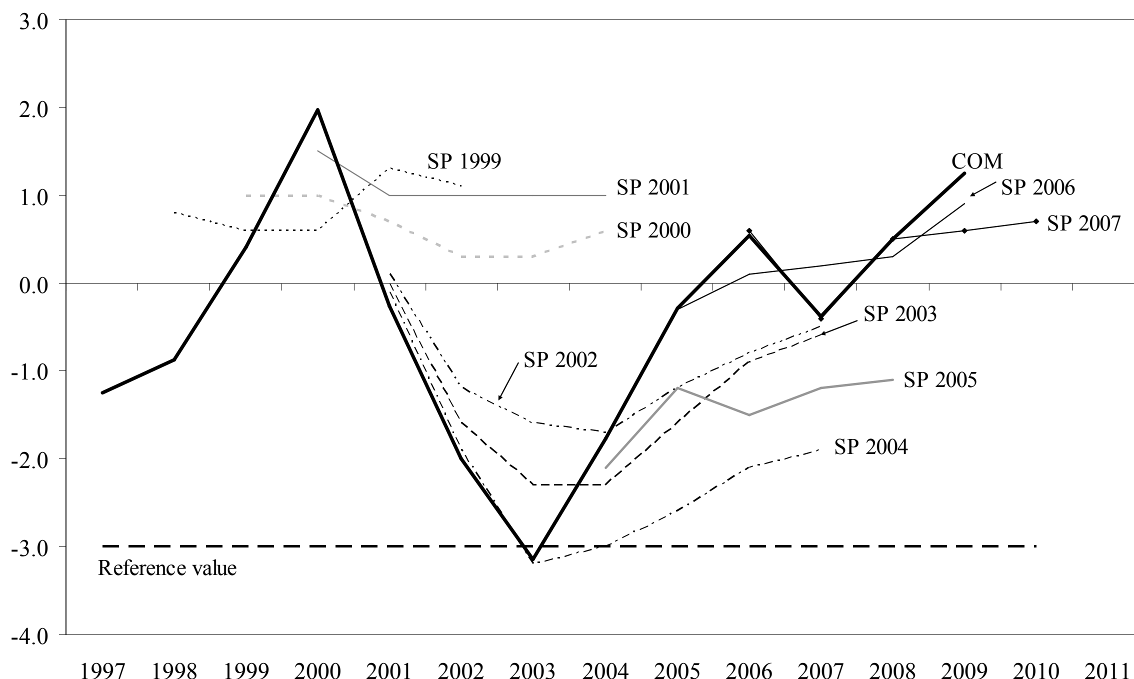
As indicated in Section 4.2.1 above, the Dutch budget strongly relies on gas revenues. Such revenues are known to be volatile, both because of large price movements and, as experienced in 2007, because of demand instability (due to weather conditions). It is therefore conceivable that a new period of high temperatures and/or an unexpected fall in energy prices may reduce gas revenues over the programme period. Nevertheless, planned gas revenues in the programme are based on realistic energy prices and may even be considered slightly cautious from 2009 onwards, as the underlying energy price assumptions are somewhat benign in light of recent energy price developments.

In the past, the expenditure ceilings as set at the start of a government were generally adhered to. However, additional budgetary efforts during the government's term, such as in 2004 and 2005 that aimed to correct the excessive deficit, have turned out to be only temporary. In the budget for 2006, the expenditure ceilings were again raised to their original (higher) levels at a time when the economy and budgetary outcomes started to surprise on the upside. Overall, the budgetary system has not been fully successful in preventing a political cycle from emerging. For instance, by raising the expenditure ceilings for 2006 and 2007 to their original levels, the outgoing government was able to increase spending in the run-up to the elections, thereby stimulating the economy at a time when economic growth was above potential. Concerning 2007, without operational

expenditure ceilings in place, the government that took office in February 2007 did not resume full responsibility for budgetary developments in that year and left budgetary overruns, especially in the field of health care, partly uncorrected. The envisaged budgetary consolidation in the programme (from 2008 onwards) predominantly relies on boosting tax revenues, while on the expenditure side, real expenditure ceilings have been defined, aiming to control expenditure growth (for an overview of the system see Section 6). As elections are planned shortly after the end of the programme horizon, there is a risk of extra spending or tax relief at the end of the government term. In fact, the consolidation path of the new government involves significant budgetary consolidation early in the government's term, a broadly neutral stance in 2009 and a budgetary loosening towards the end of the governments' term. As such, the multi-annual budgetary plans of the current government by design resemble the outcomes consistent with a political cycle.

Overall, although the system of budgetary rules was generally adhered to, budgetary outcomes correlate positively with the economic position. As Figure 11 shows, the targets set in the period 2000 to 2002, when the economy was slowing down, were repeatedly missed. Starting with the Stability Programme update from 2003 onwards, budgetary outcomes turned out significantly better than targeted. This situation again reversed with the previous Stability Programme update (November 2006), which targeted a small surplus for 2007. The outcome for 2007 is now estimated at a small deficit. Hence, in times of economic headwinds, the fiscal position may deteriorate significantly, as happened in the period 2000 to 2003. In 2004 and 2005, at a time when the economy was recovering only modestly, the budgetary position again improved markedly. That period of budgetary consolidation was achieved through significant additional savings measures. The budgetary track record does not constitute an additional risk.

Figure 11: Government balance projections in successive programmes (% of GDP)



Source: Commission services' autumn 2007 forecast (COM) and successive stability programmes

As indicated in Section 4.1, the programme suggests that the budgetary target for 2007 (a deficit of 0.4% of GDP) should be considered outdated. The latest official estimate of the budget balance in 2007 is a deficit of 0.2% of GDP (in the 'Autumn memorandum'). The 0.2% of GDP better outcome results from slightly higher (less disappointing) gas revenues, higher revenues from taxes and social premiums and lower expenditures from the Infrastructure Fund and the Economic Structure Enhancing Fund (Fonds Economische Structuurversterking, FES). Although improved tax revenues may carry over into 2008, they do not constitute a clear positive risk to the outcome in 2008 or thereafter. This is because the underspending from both the Infrastructure Fund and the FES in 2007 may be recuperated in 2008. Furthermore, health care expenditures recorded overruns early in 2007 and may show further overruns. The Autumn memorandum did not contain updated information on health care expenditures vis-à-vis the budget.

Summing up, risks to the budgetary position in 2008 seem broadly balanced. For 2009 and 2010, a positive risk to the budgetary position stems from the cautious macro-economic scenario and slightly benign tax elasticities. Furthermore, gas revenues may turn out somewhat higher than anticipated in the programme in those years. These upward risks are partially counterbalanced by a negative budgetary risk from the lack of information regarding planned measures from 2009 onwards and from the possibility that towards the end of the programme horizon difficult measures may not be undertaken. Overall, the risks to the budgetary outcomes are considered to be balanced until 2008, but budgetary outcomes could turn out better than targeted in the programme thereafter.

4.4. Assessment of the fiscal stance and budgetary strategy

The table below offers a summary assessment of the country's position relative to the budgetary requirements laid down in the Stability and Growth Pact. In order to highlight the role of the preceding analysis of the risks that are attached to the budgetary targets presented in the programme, this assessment is done in two stages: first, a preliminary

assessment on the basis of the targets taken at face value and, second, the final assessment also taking into account risks.

Table 7: Overview of compliance with the Stability and Growth Pact

	Based on programme[3] (with the targets taken at face value)	**Assessment** (taking into account risks to the targets)
a. Safety margin against breaching 3% of GDP deficit limit[1]	throughout programme period	throughout programme period
b. Achievement of the MTO	throughout programme period	throughout programme period
c. Fiscal stance in line with Pact[2]?	in line	in line

Notes:
[1]The risk of breaching the 3% of GDP deficit threshold with normal cyclical fluctuations, i.e. the existence of a safety margin, is assessed by comparing the cyclically-adjusted balance with the minimum benchmark (estimated as a deficit of around 1% of GDP for the Netherlands). These benchmarks represent estimates and as such need to be interpreted with caution.
[2]According to the Stability and Growth Pact, countries which have already achieved their MTO should avoid pro-cyclical fiscal policies in "good times".
[3]Targets in cyclically-adjusted terms (for a) and in structural terms (for b and c) as recalculated by Commission services on the basis of the information in the programme.

Source:
Commission services

Taking into account risks to the budgetary projections, the budgetary strategy as outlined in the programme respects the MTO throughout the programme period and hence can be considered as appropriate under the Pact. In addition, the cyclically-adjusted balance in the Netherlands is better than the minimum benchmark (estimated as a deficit of around 1% of GDP for the Netherlands) throughout the programme horizon. Hence, the budgetary stance in the programme provides a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macro-economic fluctuations over the programme horizon.

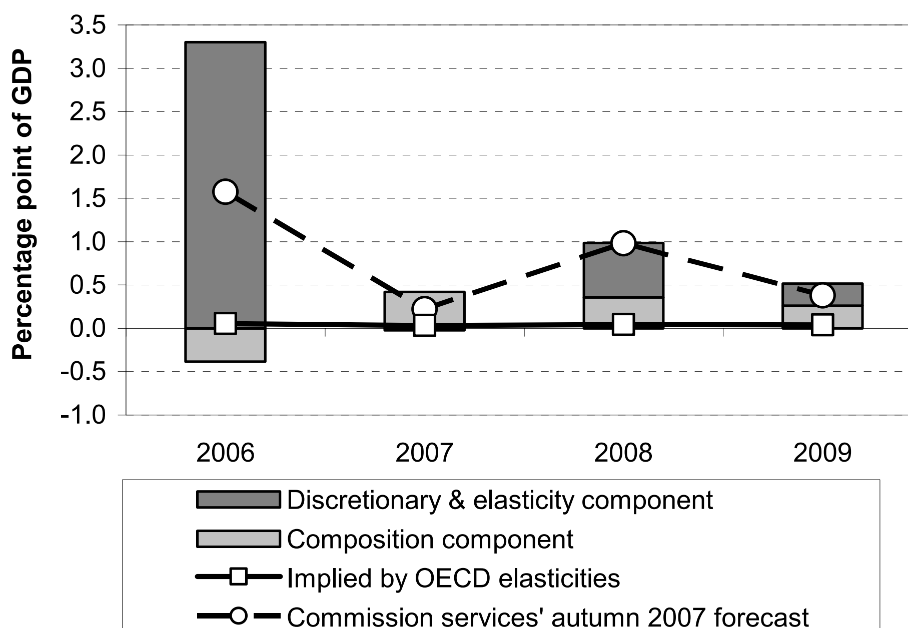
As regards the appropriateness of the fiscal stance and in particular the Pact's requirement that countries which have achieved the MTO avoid pro-cyclical fiscal policies in good times (taking into account tax elasticities), as concluded in section 3.3 above, from 2007 onwards the Dutch economy is considered to be in good times. This is confirmed by the decomposition of the change in tax-to-GDP ratio as shown in Figure 12 It indicates that the higher expected yield in 2008 and 2009 is related both to a positive effect from the composition of economic growth (as indicated in Section 3.1 above) and to the discretionary and elasticity component. Indeed, as detailed in Section 4.2.2, the budget for 2008 contains several measures that raise the tax burden, such as the introduction of several product taxes and levies and the rise in health-care premiums.

Being in good times (taking into account tax elasticities), the Netherlands needs to avoid pro-cyclical fiscal policies. The programme plans to partially correct the strongly pro-cyclical stance of 2007, when the structural balance deteriorated by 1¼% of GDP. In 2008, the structural balance is targeted to be restrictive, improving by ¾% of GDP. In 2009 the fiscal stance is planned to be neutral, turning restrictive again in 2010, when an improvement of ¾% of GDP is targeted.

The planned restrictive fiscal stance in 2008 is also appropriate in the light of the risk of overheating (see Sections 2.4 and 3.3). Based on the programme's economic scenario,

the planned neutral stance in 2009 can also be deemed appropriate. However, if the macro-economic outturn from 2009 onwards is better than expected in the programme, as seems likely in the light of the cautious economic scenario contained therein, this should be reflected in a continuation of the restrictive fiscal stance. Regarding 2010, the targeted somewhat restrictive stance in 2010 is in line with the Pact.

Figure 12: Changes in the tax-to-GDP ratio: actual/projected changes vs. changes implied by OECD elasticity



Note:
The dashed line displays the change in the tax ratio in the Commission services' 2007 autumn forecast (for 2009, on a no-policy-change basis). The solid line shows the change in the tax ratio implied by the ex-ante OECD elasticity with respect to GDP. The difference between the two is explained by the bars. The composition component captures the effect of differences in the composition of aggregate demand (more tax rich or more tax poor components). The discretionary and elasticity component captures the effect of discretionary fiscal policy measures as well as variations of the yield of the tax system that may result from factors such as time lags and variations of taxable income that do not necessarily move in line with GDP, e.g. capital gains. The two components may not add up to the total difference because of a residual component, which is generally small.

Source:
Commission services

5. Government debt and long-term sustainability

This section is in two parts. A first part describes recent debt developments and medium-term prospects, including risks to the outlook presented in the programme. A second part takes a longer-term perspective with the aim of assessing the long-term sustainability of public finances.

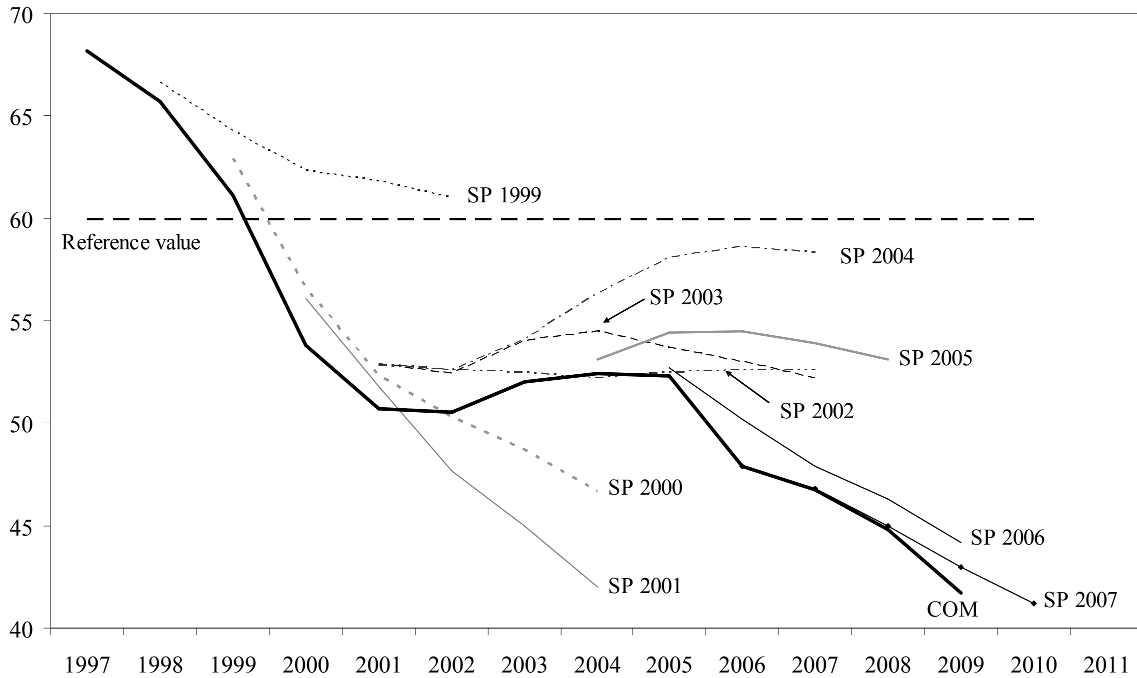
5.1. Recent debt developments and medium-term prospects

5.1.1. Debt projections in the programme

The debt-to-GDP ratio fell below 60% in 2000 (Figure 13) and reached a temporary low of 50.5% in 2002, before increasing to close to 53% in both 2004 and 2005. In 2006, the debt ratio fell by 4.4 percentage points to 47.9%, owing to the combination of strong economic growth, a budgetary surplus and the sizable net disposal of shares and other

equities. In the new programme, the debt ratio is projected to fall by 1.1 percentage points to 48.7% in 2007. This is identical to the projection in the Commission services' autumn forecast. The programme targets do not reflect the 0.2% of GDP better-than-expected budgetary outcome for 2007 that was presented in the Ministry of Finance's Autumn Memorandum of 26 November 2007 and that would lead to a lower debt ratio, at 46.5%.

Figure 13: Debt projections in successive programmes (% of GDP)



Source: Commission services' autumn 2007 forecast (COM) and successive stability programmes

For the remainder of the programme horizon, the programme expects the debt-to-GDP ratio to continue to decline to around 41% at the end of 2010. This is mainly the result of nominal GDP growth and the positive primary balance, which is expected to increase to 2.9% in 2010. In 2008 (and to a lesser extent in 2007), there are sizable stock-flow operations related to the planned assumption of debt of the Netherlands Antilles.

Table 8: Debt dynamics

(% of GDP)	average 2002-05	2006	2007		2008		2009		2010
			COM	SP	COM	SP	COM	SP	SP
Gross debt ratio[1]	**51.8**	**47.9**	**46.8**	**46.8**	**44.8**	**45**	**41.7**	**43**	**41.2**
Change in the ratio	0.4	-4.4	-1.1	-1.1	-1.9	-1.8	-3.1	-2.0	-1.8
Contributions [2] *:*									
Primary balance	**-0.8**	**-2.8**	**-1.8**	**-1.8**	**-2.7**	**-2.7**	**-3.3**	**-2.7**	**-2.7**
"Snow-ball" effect	**0.9**	**-0.3**	**0.3**	**0.3**	**0.0**	**0.2**	**-0.1**	**0.5**	**0.5**
Of which:									
Interest expenditure[3]	2.5	2.2	2.2	2.2	2.2	2.2	2.0	2.1	2.0
Growth effect	-0.5	-1.5	-1.3	-0.9	-1.2	-0.9	-1.1	-0.5	-0.5
Inflation effect	-1.1	-1.0	-0.6	-1.0	-0.9	-1.1	-1.1	-1.1	-1.0
Stock-flow adjustment	**0.2**	**-1.4**	**0.4**	**0.5**	**0.7**	**0.7**	**0.4**	**0.2**	**0.5**
Of which:									
Cash/accruals diff.	0.2	0.1		0.4		0.2		0.2	0.2
Acc. financial assets	0.0	-1.5		0.0		0.6		0.1	0.1
Privatisation	*0.0*	*0.0*		*0.0*		*0.0*		*0.0*	0.0
Val. effect & residual	0.0	0.0		0.0		0.0		0.0	0.0

Notes:

[1]End of period.

[2]The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - y_t}{1 + y_t} \right) + \frac{SF_t}{Y_t}$$

where t is a time subscript; *D, PD, Y* and *SF* are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth (in the table, the latter is decomposed into the growth effect, capturing real GDP growth, and the inflation effect, measured by the GDP deflator). The term in parentheses represents the "snow-ball" effect. The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Interest expenditure from the programme recalculated by Commission services to ensure cnsistency with primary and nominal general government balances.

Source :

Stability programme (SP); Commission services' autumn 2007 economic forecasts (COM); Commission services' calculations

5.1.2. Assessment

The debt projections in the programme are similar to those in the Commission services' autumn 2007 forecast and differences primarily reflect divergences in the projected evolution of nominal GDP and in projected gas revenues that affect the primary balance. Finally, from 2009 onwards, differences arise because of the no-policy-change assumption of the Commission services' autumn 2007 forecast.

The risks to the debt-to-GDP ratio are skewed to the downside, because of the better budgetary outcome in 2007 that has not been incorporated in the programme. Furthermore, as nominal GDP growth from 2009 onwards appears to be cautious, this may act to reduce the debt-to-GDP ration via two channels. First, *ceteris paribus*, as GDP increases, the debt-to-GDP ratio will fall. Second, higher GDP growth is likely to result in a better budgetary outcome, resulting in an even lower debt-to-GDP ratio. Finally, there are indications that the debt assumption of the Netherlands Antilles may be delayed to 2009; in this case the debt ratio will turn out lower in 2008. Finally, as

nominal GDP growth from 2009 onwards appears to be cautious, this may act to reduce the debt-to-GDP ration via two channels. First, *ceteris paribus*, as GDP increases, the debt-to-GDP ratio will fall. Second, higher GDP growth is likely to result in a better budgetary outcome, resulting in an even lower debt-to-GDP ratio.

5.2. Long-term debt projections and the sustainability of public finances

5.2.1. Sustainability indicators and long-term debt projections

Table 9 shows the evolution of government spending on pensions, healthcare, long-term care for the elderly, education and unemployment benefits according to the EPC's projections and property income received by general government according to an agreed methodology.[25] Non age-related primary expenditure and primary revenue is assumed to remain constant as a share of GDP.

Table 9: Long-term age-related expenditure: main projections

(% of GDP)	2004	2010	2020	2030	2040	2050	Change 2004-50
Total age-related spending	20.9	20.6	22.4	24.7	26.2	25.8	5.0
- Pensions	7.7	7.6	9.0	10.7	11.7	11.2	3.5
- Healthcare	6.1	6.3	6.7	7.1	7.4	7.4	1.3
- Long-term care	0.5	0.5	0.5	0.8	0.9	1.1	0.6
- Education	4.8	4.7	4.6	4.6	4.7	4.6	-0.2
- Unemployment benefits	1.8	1.5	1.5	1.5	1.5	1.5	-0.2
Property income received	2.3	2.1	1.9	1.7	1.4	1.2	-1.1

Source: Economic Policy Committee and Commission services.

The projected increase in age-related spending in the Netherlands is above the average of the EU, rising by 5.0 percentage points of GDP between 2004 and 2050. This is particularly due to the expenditure on pensions in the Netherlands, which is projected to increase more than on average in the EU, by 3.5 percentage points of GDP, although the recent reform of the disability scheme (which is included in the pension projection) contributes to curbing spending increases. The increase in health-care expenditure is projected to be 1.3 percentage points of GDP, which is lower than on average in the EU. For long-term care, the projected increase of 0.7 percentage points up to 2050 is slightly above the average in the EU. Property income received by the general government should decrease over the long-term by 1.1 percentage points of GDP, one of the largest decreases in the EU, notably as a result of the depletion of natural resources.

Table 10: Sustainability indicators and the required primary balance

	2007 scenario			Programme scenario		
	S1	**S2**	**RPB**	**S1**	**S2**	**RPB**
Value	2.2	3.9	5.2	1.0	2.8	5.1
of which:						
Initial budgetary position (IBP)	-0.8	-0.5	-	-1.9	-1.7	-
Debt requirement in 2050 (DR)	-0.3	-	-	-0.4	-	-
Long-term change in the primary balance (LTC)	3.3	4.4	-	3.3	4.4	-

Source: Commission services.

Based on the long-term budgetary projections, sustainability indicators can be calculated. Table 10 shows the sustainability indicators for the two scenarios; the 2007 scenario assumes that the structural primary balance in 2007 is unchanged for the rest of the

[25] See the accompanying "methodological paper" for a description of the property income projections.

programme period and the programme scenario assumes that the programme's budgetary plans are fully attained.

In the "2007 scenario", the sustainability gap (S2) which satisfies the intertemporal budget constraint would be 3.9% of GDP.[26] Compared to the previous programme assessment, the sustainability gap is higher in the present assessment, by about 1.6% of GDP:

- First, the inclusion of property income projections in the sustainability indicator has increased substantially the sustainability gap by around ¾ percentage points of GDP. Yet, it should be noted that this change in the way indicators are calculated is neutral in terms of overall assessment of long-term sustainability of public finances as property income developments used to be considered as a qualitative factor in the previous round of assessment.

- Second, and importantly, the structural primary balance in 2007 (1.8% of GDP) has deteriorated significantly compared to 2006 (3.2% of GDP as estimated today and 2.7% of GDP as estimated a year ago in the assessment of the 2006/07 update of the stability programme).

The initial budgetary position with a structural primary balance of 1.8% of GDP contributes to the reduction of gross debt and the accumulation of financial assets. According to both sustainability gaps, the long-term budgetary impact of ageing is above the average of the EU.

The programme plans a structural primary budgetary consolidation of 1.1% of GDP between 2007 and 2010. If achieved, such a consolidation would appreciably reduce risks to long-term sustainability of public finances by reducing the S2 sustainability gap to 2.8% of GDP ("programme scenario"). The difference between the initial budgetary position in the '2007 scenario' and the 'programme scenario' illustrates how the full respect of the convergence programme targets, would contribute to tackling the budgetary challenges raised by the demographic developments.

The required primary balance (RPB) is around 5% of GDP, higher than the structural primary balance of about 2.9% of GDP in the last year of the programme's period.

The sustainability gap indicators would increase by about ¼ percentage points of GDP if the planned budgetary adjustment was to be postponed by 5 years, highlighting that budgetary savings can be made if action is taken sooner rather than later.

Another way to look at the prospects for long-term public finance sustainability is to project the debt/GDP ratio over the long-term using the same assumptions as for the calculations of the sustainability indicators. The long-term projections for government debt under the two scenarios are shown in Figure 14. The gross debt ratio is currently below the 60% of GDP reference value, estimated in the programme at 47% of GDP in 2007. In the '2007 scenario', debt is projected to decrease up to 2020 and, thereafter, to increase significantly. In the 'programme scenario', the debt profile is less adverse due to

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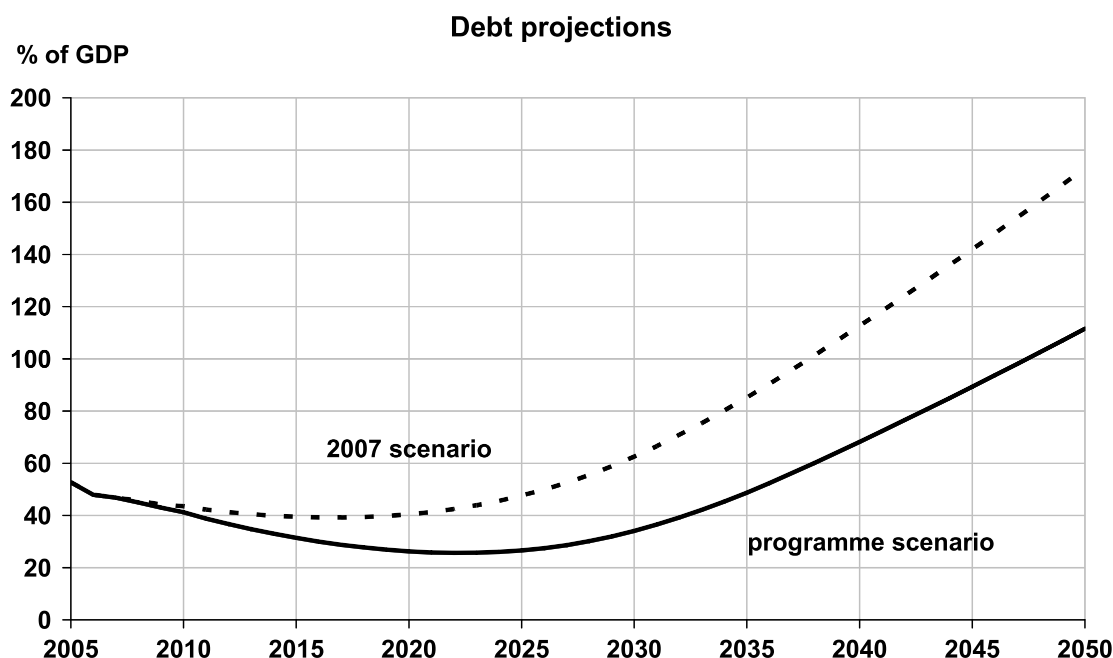
[26] The sustainability gap (S1) that assures reaching the debt ratio of 60% of GDP by 2050 would be 2.2% of GDP.

the better budgetary position at the end of the programme, albeit still increasing significantly at the end of the projection period.[27]

Figure 14: Long-term projections for the government debt ratio



Source: Commission services

5.2.2. Additional factors

To reach an overall assessment of the sustainability of public finances, other relevant factors are taken into account, which in addition allow to better appreciate where the main risks to sustainability are likely to stem from.

Direct taxes on pensions, notably of occupational pensions, will increase significantly over the long-term by around 1.6 percentage points of GDP up to 2050, according to the estimation of CPB.[28] Indeed, social contributions currently paid to occupational pension schemes (which are tax exempt) are larger than pension disbursements (which are taxable) and the situation is expected to be reversed in the future, leading to higher tax revenue as a share of GDP. This reduces the sustainability gap by 1.5 percentage points of GDP to 2.4 percentage points of GDP.[29]

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[27] It should be recalled, however, that being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication of the risks faced by Member States.

[28] See Chapter IV.3 in the Commission's Sustainability Report and CPB (2006), 'Ageing and the Sustainability of Dutch Public Finances' (2006). The CPB study is mentioned in the programme text with a reference to the CPB study, but it is not reflected in the tables of the programme.

[29] The S1 sustainability gap is reduced by 1.0 p.p. of GDP reaching 1.2 p.p. of GDP in the 2007 scenario; the RPB is reduced by 1.5 p.p. of GDP reaching 3.5p.p. of GDP

5.2.3. Assessment

The long-term budgetary impact of ageing in the Netherlands is higher than the EU average, which is influenced notably by a relatively high increase in pension expenditure as a share of GDP over the coming decades. Yet, the projected future rise of tax revenues as a share of GDP, due to the deferred taxation of private pension, would partly compensate the increase in public expenditure over the long-term.

The initial budgetary position contributes to easing the projected long-term budgetary impact of an ageing population but it is not sufficient to cover the substantial increase in age-related expenditure, notably in view of the deterioration of the structural primary balance in 2007 compared to 2006. Ensuring higher primary surpluses over the medium-term and/or implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing risks to the sustainability of public finances.

Overall, the Netherlands appears to be at medium risk with regard to the sustainability of public finances.

6. Structural reform, the quality of public finances and institutional features

One of the six pillars of the new government aims at a more service-oriented and efficient government. This includes expenditure cutbacks through a reduction of the number of civil servants. Over the planned government term, a total of almost 13,000 jobs in the government sector, or around 1½% of non-civilian government personnel will be shed, resulting in savings of € 630 million per year. Moreover, the implementation of social security schemes will be improved through merging the municipal authorities' work reinstatement and labour participation budgets which are aimed at reducing the number of income support applications. Finally, the programme indicates that other efficiency measures will be taken within the public sector as regards material expenditure, in particular through economising on information and communication policy. For the reduction in the number of civil servants a multi-annual programme has already been set in motion, but for most other measures there is no information on the timing of implementation.

The new government reaffirmed most budgetary rules that were put in place by previous governments[30] and made some minor adjustments. First, interest expenditure on the state debt has been taken out from under the expenditure ceilings. In the past, a reduction in interest expenditure would imply that other expenditures under the ceilings could increase. In view of the steady decline in government debt and the fall in interest rate level, total interest expenditure as a percentage of GDP fell from 5.6% of GDP in 1995 to 2.2% in 2007. In the current system, a change in the interest rate level will not affect other government expenditures.

Second, after the excessive deficit in 2003, the government decided to use a so-termed 'signal' value for the general government deficit of 2.5% of GDP. In case the budgetary

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[30] For a description of the budgetary rules in place before the start of the new government, see the Economic Assessment of the Stability Programme of the Netherlands (Update of November 2006), Section 2.4.

deficit may be expected to surpass that value, extra budgetary measures would be taken in order to prevent an excessive deficit from occurring. The current government has lowered this signal value to a deficit of 2% of GDP. In view of the sizable volatility of the Dutch government balance (and of early estimates thereof), this is a welcome improvement in the set of budgetary rules.

A third change in the budgetary rules entails the use of a 'realistic' macroeconomic growth scenario, which is used to base the revenue projections and expenditure ceilings on. In the past, these were based on a relatively cautious macro-economic scenario. The current setup is designed to even out, on average, positive and negative budgetary surprises, while the previous setup resulted, on average, in positive budgetary surprises. Nevertheless, for the year 2009, the 'realistic' scenario entails economic growth of merely 1¾% of GDP, which appears on the low side given the continued tightness of the labour market and associated strong wage and consumption growth.

In past years, the Economic Structure Enhancement Fund (Fonds Economische structuurversterking/FES) has been spuriously used to effectively get around national expenditure rules. On several occasions, planned outlays, which were already funded from regular budgets but were also eligible for the FES, were reclassified as FES investments and therefore effectively allowed for increased spending in departmental budgets[31]. Most recently, in the budget for 2007, the government decided to borrow EUR 1 billion from the FES in 2007 in order to pre-finance a reduction in the tax burden that will be funded from 2009 onwards with the reduction in Dutch contribution to the EU budget. Although these operations are neutral with respect to the general government balance in ESA95 terms, they circumvented national budgetary rules. Following advice from the study group on the budget margin (Studiegroep Begrotingsruimte)[32], the new government announced to improve the management of the FES, tighten eligibility requirements for investment projects and change its funding into a multi-annual system. In the draft budget 2008, plans to this effect have been implemented, but only for the year 2008. This will prevent fluctuations in the funding of the FES for 2008 when gas revenue estimates are reassessed. The formulation of plans to change structurally the funding of the FES has been postponed until the summer of 2008.

In 2003, the Dutch government set a target to reduce the administrative burden on enterprises by 25% or EUR 4 billion by 2007. This policy goal has since been internationally recognised as a best practice. The new update of the stability programme does not evaluate the progress with respect to the target set by the previous government. The previous update of the Stability Programme had stated that a reduction in the administrative burden of 2.3 billion had been realised at the time of submission (November 2006), which is equivalent to almost 15%. The new government is now aiming to reduce further the administrative burden and has set an additional goal of 25%.

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[31] See also the Economic Assessment of the Stability Programme of the Netherlands (Update of November 2006), Box 4.

[32] Studiegroep Begrotingsruimte, *Vergrijzing en Houdbaarheid*, 12e rapport, June 2006.

7. CONSISTENCY WITH THE NATIONAL REFORM PROGRAMME AND WITH THE BROAD ECONOMIC POLICY GUIDELINES

The measures in the stability programme appear fully in line with the National Reform Programme and the progress recorded in the Implementation Report thereof submitted in October 2007. Both documents discuss the planned measures from the point of view of the six-pillar strategy that was developed by the current government in the government declaration. The pillars are (1) an active and constructive role for the Netherlands in Europe and in the world, (2) progress towards an innovative, competitive and enterprising economy, (3) a sustainable living environment, (4) participation and social cohesion, (5) safety, stability, and respect and (6) a more service-oriented and more efficient government. The stability programme update and the National Reform programme each describe a relevant subset of the measures contained in the six pillars, but these subsets differ. Measures that are described in both documents include the phasing out of the transferability of the general tax credit over a period of 15 year starting in 2009 and the action plan 45+, which aims to reduce unemployment among people aged 45 and older by at least 1.1 percentage points (30,000 people) by December 2008.

The stability programme does not contain a qualitative assessment of the overall impact of the national reform programme (NRP) within the medium term fiscal strategy, but it does contain information on the direct budgetary costs associated with the main reforms envisaged in the NRP. The budgetary projections in the programme seemingly take into account the public finance implications of the reforms envisaged in the (implementation report of the) NRP. The two programmes seem to be integrated, as both documents appear to reflect different aspects of a common set of measures.

Box 5: The Commission assessment of the October 2007 implementation report of the national reform programme

On 11 December 2007, the Commission adopted its Strategic Report on the renewed Lisbon strategy for growth and jobs, which includes an assessment of the October 2007 implementation report of Dutch national reform programme[33] and is summarised as follows.

The Dutch national reform programme identifies as main priorities: improving labour supply; achieving faster growth in labour productivity, in particular by strengthening R&D, innovation and education; and improving price competitiveness, in particular by containing labour costs.

The Commission's assessment is that the Netherlands has made significant progress in implementing its National Reform Programme over the 2005-2007 period.

In light of strengths and weaknesses identified, the Commission recommends that the Netherlands is recommended to take action to improve labour supply of women, older workers and disadvantaged groups. Against the background of progress made, the Commission recommends that the Netherlands is encouraged to (also) focus on increasing private R&D expenditure and address the interaction between private R&D and public research as well as foreign R&D investment.

The tables below provide an overview of whether the strategy and policy measures in the stability programme are consistent with the broad economic policy guidelines in the area

[33] Communication from the Commission to the European Council, "Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010)", 11.12.2007, COM(2007)803.

of public finances issued in the context of the Lisbon strategy for growth and jobs. The first table makes the assessment against the integrated guidelines for the period 2005-2008, adopted by the Council in July 2005. The second table makes the assessment against the recommendations for the euro area, adopted by the Council in March 2007. The budgetary strategy in the stability programme is partly consistent with the recommendations for the euro area.

Table 11: Consistency with the broad economic policy guidelines (integrated guidelines)

Broad economic policy guidelines (integrated guidelines)	Yes	Steps in right direction	No	Not applicable
1. To secure economic stability				
– Member States should respect their medium-term budgetary objectives. As long as this objective has not yet been achieved, they should take all the necessary corrective measures to achieve it[1].	X			
– Member States should avoid pro-cyclical fiscal policies[2].	X			
– Member States in excessive deficit should take effective action in order to ensure a prompt correction of excessive deficits[3].				X
– Member States posting current account deficits that risk being unsustainable should work towards (…), where appropriate, contributing to their correction via fiscal policies.				X
2. To safeguard economic and fiscal sustainability In view of the projected costs of ageing populations,				
– Member States should undertake a satisfactory pace of government debt reduction to strengthen public finances.				X
– Member States should reform and re-enforce pension, social insurance and health care systems to ensure that they are financially viable, socially adequate and accessible (…)	X			
3. To promote a growth- and employment-orientated and efficient allocation of resources				
Member States should, without prejudice to guidelines on economic stability and sustainability, re-direct the composition of public expenditure towards growth-enhancing categories in line with the Lisbon strategy, adapt tax structures to strengthen growth potential, ensure that mechanisms are in place to assess the relationship between public spending and the achievement of policy objectives and ensure the overall coherence of reform packages.	X			

Notes:
[1]As further specified in the Stability and Growth Pact and the code of conduct, i.e. with an annual 0.5% of GDP minimum adjustment in structural terms for euro area and ERM II Member States.
[2]As further specified in the Stability and Growth Pact and the code of conduct, i.e. Member States that have already achieved the medium-term objective should avoid pro-cyclical fiscal policies in "good times".
[3]As further specified in the country-specific Council recommendations and decisions under the excessive deficit procedure.

Source:
Commission services

Table 12: Consistency with the broad economic policy guidelines (country-specific recommendations and points to watch)

Broad economic policy guidelines (country-specific recommendations and points to watch)	Yes	Steps in right direction	No	Not applicable
1. Country-specific recommendations				
– *none*				X
2. Points to watch				

Broad economic policy guidelines (country-specific recommendations and points to watch)	Yes	Steps in right direction	No	Not applicable
– *none*				X
3. Recommendations for euro area Member States				
– Make use of the favourable cyclical conditions to aim at or pursue ambitious budgetary consolidation towards their medium-term objectives in line with the Stability and Growth Pact, hence striving to achieve an annual structural adjustment of at least 0.5% of GDP as a benchmark				X
– Improve the quality of public finances by reviewing public expenditure and taxation, with the intention to enhance productivity and innovation, thereby contributing to economic growth and fiscal sustainability	X			
Source: *Commission services*				

* * *

Annex 1: Compliance with the code of conduct

This annex provides an assessment of whether the programme respects the requirements of Section II of the code of conduct (guidelines on the format and content), notably as far as (i) the model structure (Annex 1 of the code of conduct); (ii) the formal data provisions (Annex 2 of the code of conduct); and (iii) other information requirements is concerned.

(i) Model structure

The programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct. In chapter 5 (on the quality of public finance), the description of expenditure and revenue developments is relatively thin and mainly refers to 'the government's term' (which ends in 2011) rather than the programme period (which ends in 2010).

(ii) Data requirements

All compulsory data specified in the standard tables in Annex 2 of the code of conduct, as amended by the September 2007 EFC, have been supplied. Most optional data suggested by the new code of conduct is also available.

The tables on the following pages show the data presented in the November 2007 update of the stability programme, following the structure of the tables in Annex 2 of the code of conduct. Compulsory data are in bold, missing data are indicated with grey-shading.

(iii) Other information requirements

The table below provides a summary assessment of the adherence to the other information requirements in the code of conduct.

The Stability Programme …	Yes	No	Comments
a. Involvement of parliament			
… mentions status vis-à-vis national parliament.	X		
… indicates whether Council opinion on previous programme has been presented to national parliament.	X		
b. Economic outlook			
… (for euro area and ERM II Member States) uses "common external assumptions" on main extra-EU variables.		X	
… explains significant divergences with Commission services' forecasts[1].			Not applicable
… bears out possible upside/downside risks to economic outlook.	X		
… analyses outlook for sectoral balances and, especially for countries with high external deficit, external balance.	X		
c. Monetary/exchange rate policy			
… (CP only) presents medium-term monetary policy objectives and their relationship to price and exchange rate stability.			Not applicable
d. Budgetary strategy			
… presents budgetary targets for general government balance in relation to MTO and projected path for debt ratio.	X		
… (in case new government has taken office) shows continuity with respect to budgetary targets endorsed by Council.	X[2]		
… (when applicable) explains reasons for deviations from previous targets and, in case of substantial deviations, whether measures are taken to rectify situation (+ provides information on them).			Not applicable
… backs budgetary targets by indication of broad measures necessary to achieve them and analyses their quantitative effects on balance.	X		Information lacks specificity
… specifies state of implementation of measures.	X		But only partially
e. "Major structural reforms"			
… (if MTO not yet reached or temporary deviation is planned from MTO) includes comprehensive information on economic and budgetary effects of possible 'major structural reforms' over time.			Not applicable

The Stability Programme …	Yes	No	Comments
… includes quantitative cost-benefit analysis of short-term costs and long-term benefits of reforms.			Not applicable
f. Sensitivity analysis			
… includes comprehensive sensitivity analyses and/or develops alternative scenarios showing impact on balance and debt of: a) changes in main economic assumptions b) different interest rate assumptions c) (for CP only) different exchange rate assumptions d) if common external assumptions are not used, changes in assumptions for main extra-EU variables.		X	Only limited information on the effects of changes in main economic assumptions is provided
… (in case of "major structural reforms") analyses how changes in assumptions would affect budget and potential growth.			Not applicable
g. Broad economic policy guidelines			
… provides information on consistency with broad economic policy guidelines of budgetary objectives and measures to achieve them.		X	
h. Quality of public finances			
… describes measures to improve quality of public finances, both revenue and expenditure sides.	X		
i. Long-term sustainability			
… outlines strategies to ensure sustainability.	X		
… includes common budgetary projections by the AWG and all necessary additional information (esp. new relevant information).		X	
j. Other information (optional)			
… includes information on implementation of existing national budgetary rules and on other institutional features of public finances.	X		

Notes: SCP = stability/convergence programme; CP = convergence programme

[1] To the extent possible, bearing in mind the typically short time period between the publication of the Commission services' autumn forecast and the submission of the programme.

[2] Nevertheless, the new programme ignored the 2007 target, resulting in an even larger budgetary slippage than planned in the previous programme.

Source:
Commission services

Table 1a. Macroeconomic prospects

	ESA Code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	*534.03*	3.0	2¾	2½	1¾	1¾
2. Nominal GDP	B1*g	*534.03*	5.0	4¼	4½	3¾	3¾
Components of real GDP							
3. Private consumption expenditure	P.3	*253.48*	-0.8	2	2	1¼	1¼
4. Government consumption expenditure	P.3	*135.4*	9.4	2¼	½	1½	1½
5. Gross fixed capital formation	P.51	*105.28*	10.0	5¼	4¾	2	2
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	*0.79*	-0.1	0	0	0	0
7. Exports of goods and services	P.6	*391.35*	7.0	6¼	6½	5¾	5¾
8. Imports of goods and services	P.7	*351.6*	8.1	6½	6	5½	5½
Contributions to real GDP growth[1]							
9. Final domestic demand		-	3.2	2¼	2	1¼	1¼
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0	0	0	0	0
11. External balance of goods and services	B.11	-	-0.2	½	½	½	½

[1] Imports have been subtracted from the respective demand categories [sic].

Table 1b. Price developments

	ESA Code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		*100*	1.9	1½	2	1¾	1¾
2. Private consumption deflator		*100*	2.3	2¼	2¼	1¾	1¾
3. HICP[1]		*101.7*	1.7	1½	2¼	2	2
4. Public consumption deflator		*100*	1.9	3	3	3	3
5. Investment deflator		*100*	1.6	1¾	1½	1	1
6. Export price deflator (goods and services)		*100*	2.9	¼	¾	-1	-1
7. Import price deflator (goods and services)		*100*	3.3	1½	1¼	-1	-1

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons[1]		*8383*	1.2	2½	1¼	½	½
2. Employment, hours worked[2]		*11.2*	1.8	2¼	1	½	½
3. Unemployment rate (%)[3]		*3.9*	3.9	3¼	2¾	3	3
4. Labour productivity, persons[4]		*63.7*	1.8	¼	1¼	1¼	1¼
5. Labour productivity, hours worked[5]		*9.68*	1.2	½	1½	1½	1½
6. Compensation of employees	D.1	*263.1*	3.8	4	5¼	4¼	4¼
7. Compensation per employee		*41.2*	2.3	2	4	3½	3½

[1]Occupied population, domestic concept national accounts definition.

[2]National accounts definition.

[3]Harmonised definition, Eurostat; levels.

[4]Real GDP per person employed.

[5]Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	7.7	6.6	6.5	7.2	7.5
of which :						
- Balance on goods and services		7.4	6.7	6.9	7.1	7.5
- Balance of primary incomes and transfers		1.6	1.3	1.0	1.1	1.2
- Capital account		-1.4	-1.4	-1.4	-1.1	-1.2
2. Net lending/borrowing of the private sector	B.9	7.0	7.0	6.0	6.6	6.8
3. Net lending/borrowing of general government	EDP B.9	0.6	-0.4	0.5	0.6	0.7
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 2. General government budgetary prospects

	ESA Code	Year 2006	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	*3036*	0.6	-0.4	0.5	0.6	0.7
2. Central government	S.1311	*4221*	0.8	-0.1	0.4	1.2	1.1
3. State government	S.1312	*n.a.*	n.a.	n.a.	n.a.	n.a.	n.a.
4. Local government	S.1313	*75*	0.0	-0.1	-0.1	0.0	0.0
5. Social security funds	S.1314	*-1260*	-0.2	-0.3	0.1	-0.5	-0.4
General government (S13)							
6. Total revenue	TR	*249319*	46.7	45.9	46.9	46.9	47.2
7. Total expenditure	TE[1]	*246283*	46.1	46.3	46.4	46.3	46.5
8. Net lending/borrowing	EDP B.9	*3036*	0.6	-0.4	0.5	0.6	0.7
9. Interest expenditure	EDP D.41	*11744*	2.2	2.2	2.2	2.1	2.0
10. Primary balance[2]		*14780*	2.8	1.8	2.7	2.7	2.7
11. One-off and other temporary values[3]		*0*	0.0	0.0	0.0	0.3	0.0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		*132393*	24.8	25.4	25.5	26.0	25.9
12a. Taxes on production and imports	D.2	*68135*	*12.8*	*13.1*	*13.2*	13.8	13.8
12b. Current taxes on income, wealth, etc	D.5	*62447*	*11.7*	*12.0*	*12.0*	11.9	11.8
12c. Capital taxes	D.91	*1811*	*0.3*	*0.3*	*0.3*	0.3	0.3
13. Social contributions	D.61	*80860*	15.1	14.5	14.9	14.4	14.8
14. Property income	D.4	*14514*	2.7	2.4	2.8	2.7	2.5
15. Other revenues[4]		*21552*	4.0	3.6	3.7	3.8	4.0
16=6. Total revenue	TR	*249319*	46.7	45.9	46.9	46.9	47.2
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		*213253*	39.9	39.9	40.4	40.4	40.7
Selected components of expenditure							
17. Compensation of employees and intermediate consumption	D.1+P.2	*88639*	16.6	16.4	16.4	16.5	16.5
17a. Compensation of employees	D.1	*50404*	9.4	9.3	9.3	9.4	9.5
17b. Intermediate consumption	P.2	*38235*	7.2	7.1	7.1	7.1	7.0
18. Social payments (18=18a+18b)		*110944*	*20.8*	*21.0*	*21.2*	*21.2*	*21.4*
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	*58833*	*11.0*	*10.9*	*11.0*	*10.9*	*10.8*
18b. Social transfers other than in kind	D.62	*52111*	*9.8*	*10.1*	*10.2*	*10.3*	*10.6*
19=9. Interest expenditure	EDP D.41	*11744*	2.2	2.2	2.2	2.1	2.0
20. Subsidies	D.3	*6274*	1.2	1.3	1.3	1.3	1.3
21. Gross fixed capital formation	P.51	*17402*	3.3	3.3	3.2	3.2	3.2
22. Other[6]		*11280*	2.1	2.1	2.1	2.1	2.1
23=7. Total expenditure	TE[1]	*246283*	46.1	46.3	46.4	46.3	46.5
p.m.: Government consumption (nominal)	P.3	*135404*	25.3	25.6	25.4	25.6	25.9

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

[2]The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3]A plus sign means deficit-reducing one-off values.

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5]Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3. General government expenditure by function

% of GDP	COFOG Code	Year 2005	Year 2006	Year 2010
1. General public services	1	7.6	7.3	6.9
2. Defence	2	1.4	1.5	1.5
3. Public order and safety	3	1.8	1.8	1.9
4. Economic affairs	4	4.8	4.7	4.8
5. Environmental protection	5	0.9	0.8	0.7
6. Housing and community amenities	6	1.0	1.0	0.9
7. Health	7	4.4	5.9	6.6
8. Recreation, culture and religion	8	1.5	1.4	1.3
9. Education	9	5.2	5.1	5.3
10. Social protection	10	16.5	16.5	16.5
11. Total expenditure (=item 7=23 in Table 2)	TE[1]	45.2	46.1	46.5

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 4. General government debt developments

% of GDP	ESA Code	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1. Gross debt[1]		47.9	46.8	45	43	41.2
2. Change in gross debt ratio		-4.4	-1.1	-1.8	-2	-1.8
Contributions to changes in gross debt						
3. Primary balance[2]		-2.8	-1.8	-2.7	-2.7	-2.7
4. Interest expenditure[3]	EDP D.41	2.2	2.2	2.2	2.1	2.0
5. Stock-flow adjustment		-3.8	-1.5	-1.3	-1.4	-1.1
of which:						
- Differences between cash and accruals[4]		0.3	0.4	0.2	0.2	0.2
- Net accumulation of financial assets[5]		-1.5	0.0	0.6	0.1	0.1
of which:						
- privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other[6]		0.0	0.0	0.0	0.0	0.0
p.m.: Implicit interest rate on debt[7]		4.6	4.7	4.9	4.9	4.9
Other relevant variables						
6. Liquid financial assets[8]		n.a.	n.a.	n.a.	n.a.	n.a.
7. Net financial debt (7=1-6)		n.a.	n.a.	n.a.	n.a.	n.a.

[1]As defined in Regulation 3605/93 (not an ESA concept).

[2]Cf. item 10 in Table 2.

[3]Cf. item 9 in Table 2.

[4]The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5]Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6]Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

[7]Proxied by interest expenditure divided by the debt level of the previous year.

[8]AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	2006	2007	2008	2009	2010
1. Real GDP growth (%)		3.0	2¾	2½	1¾	1¾
2. Net lending of general government	EDP B.9	0.6	-0.4	0.5	0.6	0.7
3. Interest expenditure	EDP D.41	2.2	2.2	2.2	2.1	2.0
4. One-off and other temporary measures[1]		0.0	0.0	0.0	0.3	0.0
5. Potential GDP growth (%)		2	2.1	2.1	2.1	2.0
contributions to growth:						
- labour		0.3	0.4	0.3	0.3	0.3
- capital		0.7	0.7	0.8	0.7	0.7
- total factor productivity		1.1	1.0	1.0	1.0	1.0
6. Output gap		-0.8	-0.2	0.2	-0.1	-0.3
7. Cyclical budgetary component		0.5	0.1	-0.1	0	0.2
8. Cyclically-adjusted balance (2 - 7)		1.1	-0.3	0.4	0.6	0.8
9. Cyclically-adjusted primary balance (8 + 3)		3.3	1.9	2.6	2.7	2.8
10. Structural balance (8 - 4)		1.1	-0.3	0.4	0.4	0.8

[1]A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA Code	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
Real GDP growth (%)						
Previous update		3¼	3	1¾	1¾	n.a.
Current update		3.0	2¾	2½	1¾	1¾
Difference		-¼	-¼	+½	0	n.a.
General government net lending (% of GDP)	EDP B.9					
Previous update		0.1	0.2	0.3	0.9	n.a.
Current update		0.6	-0.4	0.5	0.6	0.7
Difference		+0.5	-0.6	+0.2	-0.3	n.a.
General government gross debt (% of GDP)						
Previous update		50.2	47.9	46.3	44.2	n.a.
Current update		47.9	46.8	45.0	43.0	41.2
Difference		-2.3	-1.1	-1.3	-1.2	n.a.

Table 7. Long-term sustainability of public finances

% of GDP	2000	2005	2010	2020	2030	2050
Total expenditure[1]	n.a.	45.1	45.2	47.0	49.3	50.4
Of which: age-related expenditures	n.a.	20.5	20.6	22.4	24.7	25.8
Pension expenditure	n.a.	7.4	7.6	9.0	10.7	11.2
Social security expenditure	n.a.	1.7	1.5	1.5	1.5	1.5
Old-age and early pensions	n.a.	4.8	5.2	6.7	8.6	9.4
Other pensions (disability, survivors)	n.a.	2.6	2.4	2.3	2.1	1.9
Occupational pensions (if in general government)	n.a.	4.8	4.7	5.8	7.7	8.7
Health care	n.a.	6.1	6.3	6.7	7.1	7.4
Long-term care *(this was earlier included in the health care)*	n.a.	0.5	0.5	0.5	0.8	1.1
Education expenditure	n.a.	4.8	4.7	4.6	4.6	4.6
Other age-related expenditures	n.a.	0	0	0	0	0
Interest rate expenditure	n.a.	2.4	2.0	0.8	0.4	2.3
Total revenue	n.a.	45.9	45.7	45.6	45.3	44.8
Of which: property income	n.a.	2.3	1.9	1.4	1.4	0.7
Of which : from pensions contributions (or social contributions if appropriate)	n.a.	4.0	4.0	4.0	4.0	4.0
Pension reserve fund assets	n.a.	140.8	159.0	196.1	230.5	241.9
Of which : consolidated public pension fund assets (assets other than government liabilities)	n.a.	0	0	0	0	0
Assumptions						
Labour productivity growth	n.a.	0.8	1.7	1.7	1.7	1.7
Real GDP growth	n.a.	1.4	2.1	1.6	1.3	1.7
Participation rate males (aged 15-64)	n.a.	84.0	83.1	82.8	82.2	83.2
Participation rates females (aged 15-64)	n.a.	70.1	72.4	75.4	76.3	77.7
Total participation rates (aged 15-64)	n.a.	77.1	77.8	79.1	79.3	80.5
Unemployment rate	n.a.	3.5	3.2	3.2	3.2	3.2
Population aged 65+ over total population	n.a.	20.7	22.2	29.2	37.2	40.6

1 These figures have not been published by the AWG. The method is derived from the sustainability report 2006: the non-age-related revenues and expenditures are kept constant at the 2005 level (taken from tabel *[sic]* a.3.5 of Public Finance Report 2007). Age-related revenues (property income, D4) and expenditures are then added to make up the grand total.

Table 8. Basic assumptions

	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
Short-term interest rate[1] (annual average)	3.1	4	4½	4½	4½
Long-term interest rate (annual average)	3.8	4¼	4½	4½	4½
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.26	1.34	1.35	1.38	1.42
Nominal effective exchange rate	0.6	3	¼	1	1
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)	n.a.	n.a.	n.a.	n.a.	n.a.
World GDP growth	5.3	5	5	4¾	4¾
World excluding EU, GDP growth	3.3	3	2¾	2½	2½
Growth of relevant foreign markets[2]	6.2	5¾	6	5¼	5¼
EU GDP growth	7.7	6¼	6½	6¼	6¼
World import volumes, excluding EU	7.6	6¾	6¾	6½	6½
Oil prices (Brent, USD/barrel)	65.2	69	75	65	65

Source: CPB document 151, figures for world GDP growth, EU GDP growth, and world GDP growth exluding EU are consistent with this document but not provided there; Oil prices are the Ministry of Finance's own estimates.

[1]If necessary, purely technical assumptions.

[2]Taken to be equvalent to the Dutch "*relevant wereldhandelsvolume*" (volume of relevant world trade)

Annex 2: Key indicators of past economic performance

Table: Key economic indicators

This annex displays key economic indicators that summarise the past economic performance of the Netherlands. To put the country's performance into perspective, right-hand side of the table displays the same set of indicators for the euro area.

	The Netherlands						Euro area					
	Averages			2005	2006	2007	Averages			2005	2006	2007
	'96 - '05	'96 - '00	'01 - '05				'96 - '05	'96 - '00	'01 - '05			
Economic activity												
Real GDP (% change)	2.6	4.0	1.2	1.5	3.0	2.7	2.1	2.7	1.4	1.5	2.8	2.6
Contributions to real GDP growth:												
Domestic demand	*2.3*	*4.0*	*0.7*	*0.8*	*3.1*	*2.5*	*2.0*	*2.7*	*1.3*	*1.7*	*2.6*	*2.4*
Net exports	*0.3*	*0.0*	*0.5*	*0.7*	*-0.1*	*0.3*	*0.1*	*0.0*	*0.1*	*-0.1*	*0.2*	*0.2*
Real GDP per capita (PPS; EU27 = 100)	127	129	126	125	125	124	113	114	112	110	110	109
Real GDP per capita (% change)	2.1	3.4	0.7	1.3	2.9	2.6	1.6	2.5	0.8	0.9	2.3	2.2
Prices, costs and labour market												
HICP inflation (%)	2.4	1.9	2.8	1.5	1.7	1.6	1.9	1.5	2.2	2.2	2.2	2.0
Labour productivity (% change)	1.5	1.5	1.4	1.8	1.2	0.9	1.2	1.5	0.8	1.0	1.4	1.1
Real unit labour costs (% change)	-0.4	-0.5	-0.3	-2.2	-0.8	0.4	-0.5	-0.6	-0.5	-0.8	-0.9	-0.8
Employment (% change)	1.4	2.6	0.3	0.2	1.8	2.0	1.2	1.5	0.9	0.9	1.5	1.6
Unemployment rate (% of labour force)	3.9	4.1	3.6	4.7	3.9	3.1	9.1	9.8	8.5	8.9	8.3	7.3
Competitiveness and external position												
Real effective exchange rate (% change)	0.2	-1.6	2.1	-1.8	0.3	0.9	-1.3	-5.5	2.8	-2.6	-0.6	0.6
Export performance (% change)[1]	0.2	0.6	-0.2	0.1	-1.0	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.4	4.5	6.4	6.7	7.3	6.6	0.8	0.9	0.7	0.3	0.0	0.1
Public finances												
General government balance (% of GDP)	-0.9	-0.3	-1.5	-0.3	0.6	-0.4	-2.3	-2.1	-2.5	-2.5	-1.5	-0.8
General government gross debt (% of GDP)	58.1	64.6	51.6	52.3	47.9	46.8	70.6	72.2	69.0	70.3	68.6	66.6
Structural balance (% of GDP)[2]	n.a.	n.a.	-0.8	0.8	1.1	-0.2	n.a.	n.a.	-2.6	-2.1	-1.1	-0.7
Financial indicators												
Short-term real interest rate (%)[3]	0.6	1.0	0.1	0.1	1.1	2.8	1.3	2.5	0.6	0.3	1.2	2.0
Long-term real interest rate (%)[3]	2.2	2.9	1.5	1.3	1.8	2.9	n.a.	n.a.	1.9	1.5	1.9	2.1

Notes:

[1]Market performance of exports of goods and services on export-weighted imports of goods and services of 35 industrial markets.

[2]Cyclically-adjusted balance net of one-off and other temporary measures; available since 2003.

[3]Using GDP deflator.

Source :
Commission services