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THE NETHERLANDS: MACRO FISCAL ASSESSMENT
AN ANALYSIS OF THE JANUARY 2010 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 January 2010.

The attached technical analysis of the programme prepared by the staff and under the responsibility of the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission was finalised on 17 March 2010. Comments should be sent to Jonathan van der Heijden ([Jonathan.VAN-
DER-HEIJDEN@ec.europa.eu](mailto:Jonathan.VAN-DER-HEIJDEN@ec.europa.eu)) and/or Maarten Masselink (Maarten.MASSELINK@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 2009 and February 2010 interim forecasts, (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 10 November 2009) and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances.

Based on this analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 17 March 2010. The ECOFIN Council is expected to discuss the opinion on the programme on 16 April 2010.

* * *

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/sgp/index_en.htm

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1. INTRODUCTION

This document assesses the January 2010 update of the Dutch stability programme, which was submitted on 29 January and covers the period 2009-2012. It was agreed upon within the Council of Ministers and was submitted to the Dutch Parliament and the Commission and the Council simultaneously¹. This assessment is structured as follows. Section 2 discusses the key challenges for public finances in the Netherlands. Section 3 assesses the plausibility of the macroeconomic scenario underpinning the public finance projections of the stability programme against the background of the Commission services' economic forecasts². Section 4 analyses the budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy. It also assesses risks attached to the budgetary targets, Section 5 reviews recent debt developments and medium-term prospects, as well as the long-term sustainability of public finances. Section 6 discusses institutional features of public finances. Finally, Section 7 concludes with an overall assessment of the programme. The annex provides a detailed assessment of compliance with the code of conduct, including an overview of the summary tables from the programme.

¹ Only an English version was submitted.

² This assessment uses the Commission services' 2009 autumn forecast, as published on 3 November 2009, as a benchmark. However, more recent information that has become available has also been taken into account to assess the risks to the programme scenarios.

Table 1. Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	SP Jan 2010	2.0	-4	1.5	2	2
	COM Nov 2009	2.0	-4.5	0.3	1.6	n.a.
	SP Nov 2008	2¼	1¼	2	2	n.a.
HICP inflation (%)	SP Jan 2010	2.2	1	1	1	1
	COM Nov 2009	2.2	1.1	0.9	1.2	n.a.
	SP Nov 2008	2½	3¼	2	2	n.a.
Output gap ¹ (% of potential GDP)	SP Jan 2010	2.6	-2.7	-2.3	-1.9	-1.8
	COM Nov 2009 ²	3.0	-2.7	-3.1	-2.4	n.a.
	SP Nov 2008	0.7	-0.1	-0.5	-0.6	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	SP Jan 2010	4.2	4½	5¾	6¼	6¼
	COM Nov 2009	3.9	2.7	2.7	3.6	n.a.
	SP Nov 2008	8.5	9.5	7.5	8.0	n.a.
General government revenue (% of GDP)	SP Jan 2010	45.6	44.4	44.3	44.9	45.5
	COM Nov 2009	46.6	44.8	44.8	45.1	n.a.
	SP Nov 2008	46.6	46.3	46.1	46.3	n.a.
General government expenditure (% of GDP)	SP Jan 2010	44.9	49.3	50.4	49.9	50.0
	COM Nov 2009	45.9	49.5	50.9	50.7	n.a.
	SP Nov 2008	45.4	45.1	45.3	45.2	n.a.
General government balance (% of GDP)	SP Jan 2010	0.7	-4.9	-6.1	-5.0	-4.5
	COM Nov 2009	0.7	-4.7	-6.1	-5.6	n.a.
	SP Nov 2008	1.2	1.2	0.8	1.1	n.a.
Primary balance (% of GDP)	SP Jan 2010	2.8	-2.5	-3.7	-2.6	-2.0
	COM Nov 2009	2.8	-2.3	-3.7	-3.1	n.a.
	SP Nov 2008	3.4	3.3	2.9	3.1	n.a.
Cyclically-adjusted balance ¹ (% of GDP)	SP Jan 2010	-0.8	-3.4	-4.8	-3.9	-3.5
	COM Nov 2009	-1.0	-3.2	-4.4	-4.3	n.a.
	SP Nov 2008	0.8	1.3	1.1	1.5	n.a.
Structural balance ³ (% of GDP)	SP Jan 2010	-0.6	-3.8	-4.8	-3.9	-3.5
	COM Nov 2009	-1.0	-3.6	-4.4	-4.3	n.a.
	SP Nov 2008	0.8	1.0	1.1	1.5	n.a.
Government gross debt (% of GDP)	SP Jan 2010	58.2	62.3	67.2	69.6	72.5
	COM Nov 2009	58.2	59.8	65.6	69.7	n.a.
	SP Nov 2008	42.1	39.6	38.0	36.2	n.a.

Notes:

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

²Based on estimated potential growth of 1.7%, 1.1%, 0.7% and 0.9% respectively in the period 2008-2011

³Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.4% of GDP in 2009, deficit-reducing, according to both the most recent programme and the Commission services' November 2009 forecast.

Source:

Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations

2. KEY CHALLENGES IN THE ECONOMIC DOWNTURN AND THE POLICY RESPONSE

This section describes recent economic and budgetary developments for the Netherlands, which form the background against which the current programme assessment should be viewed, and outlines the key challenges to be addressed by future economic policies.

As one of the most open economies in Europe, the Netherlands could not remain untouched by the effects of the global economic and financial crisis. As a result, the high economic growth recorded in 2006 and 2007 came to a sudden end in the second quarter of 2008. Thereafter, the economic downturn accelerated further, leading to a contraction of economic activity by 4% in 2009. In the second half, the Dutch economy rebounded and showed positive quarter-on-quarter growth of 0.5% and 0.3%, respectively. The rebound came in large part from a recovery of external demand, which boosted exports. It shows among other things that the Dutch economy is particularly sensitive to changes in global demand. The sharp fall in world trade resulted in an 8½% decrease in exports in 2009. However, the negative contribution of foreign trade to GDP growth was limited, due to a similar fall in imports, which is related to the high import content of Dutch exports. The global economic and financial crisis also led to a strong decrease in private consumption, mainly through negative wealth effects coming from a sharp decrease in asset prices. Negative wealth effects seem to have a larger impact on consumption in the Netherlands than in other European countries. Households' wealth is influenced by falling asset prices, both directly via their role as investors, and indirectly through the impact on pension fund assets. Changes in house prices seem to have played a limited role, as the decrease in house prices remained limited in 2009 at around 5%. On the supply side, the sharp decrease in production caused by weak global demand and tightening credit conditions resulted in a historically low capacity utilisation rate. This, combined with widespread declines in profits and the need to strengthen balance sheets, means that businesses sharply cut their investment by almost 15% in 2009. The labour market held up relatively well during 2009, with unemployment increasing moderately from 2.8% in 2008 to 3.4% in 2009. The decrease in unemployment was mitigated by labour hoarding and decreasing labour supply, mainly through a lowering of hours worked by self-employed.

Based on the recovery in the second half of 2009 and with the improved outlook for the international environment, annual real GDP growth is now expected to reach 1% in 2010, according to the Commission services' February 2010 interim forecast³. The recovery is expected to be driven by exports, following the rebound in world trade. Domestic demand, on the other hand, is foreseen to stay weak, with private consumption growth remaining negative as a result of increasing unemployment and decreasing wage growth. Investment is foreseen to show a further contraction in 2010, resulting from the low capacity utilisation rate, tightened credit conditions and decreased profitability. As from 2011, domestic demand is expected to contribute positively again to GDP growth as private consumption is likely to be strengthened as consumers reduce their precautionary savings in view of the improved outlook and investment increases as replacement investments are set to pick up again in 2011. The recovery of domestic demand along with the continued positive contribution of net exports in 2011 should lead to annual GDP growth of 1½% in 2011, according to the Commission services' 2009 autumn forecast.

³ In the Commission services' autumn 2009 forecast economic growth was projected at 0.3% of GDP for 2010.

At the beginning of the economic and financial crisis, the labour market was very tight with a very low unemployment rate (2.8% over 2008) and a very high number of unfilled vacancies. At the end of 2008 unemployment started to rise for the first time since the beginning of 2005. In 2009, however, the increase in unemployment remained relatively contained at ½ pp., coming out at an average unemployment rate of 3½%. There are several reasons for the subdued reaction of the labour market to the crisis. First, it can be associated with the normal lagged reaction of the labour market to changes in the economic circumstances. Second, labour supply decreased as students chose to study longer and self-employed worked fewer hours. Third, there was extensive labour hoarding, as the extremely tight labour market in the previous years had made it very difficult for firms to attract personnel, which they were subsequently reluctant to let go. For 2010 and 2011, unemployment is expected to rise to 5½% and 6% respectively, as the impact of the previously moderating effects will most probably diminish quickly.

The financial crisis revealed weaknesses in the Dutch financial system. The relatively large foreign exposure of Dutch financial institutions led to heavy losses and a substantial weakening of the capital base. This triggered a sizeable effort from the government to stabilise financial markets, which helped the financial institutions to cope with the crisis. The government nationalised a bank (Fortis Bank Nederland), set up a fund for capital injections, introduced a credit guarantee scheme for interbank loans, increased the deposit guarantee scheme, and provided assistance to both a domestic and foreign mortgage portfolio of two financial institutions.

The Netherlands also adopted a set of fiscal and structural measures in response to the crisis and the EERP, covering 2009 and 2010. In total three recovery packages were adopted by the Dutch government, amounting to almost 2% of GDP, 1% of GDP in each year. In addition, automatic stabilisers work fully, implying a substantial increase in social expenditure and a significant decrease in tax revenue. The recovery measures focus on income support, increasing public and private investment, protecting employment, increasing the budget for education and retraining, ensuring access to finance and providing liquidity support for companies. They also include structural measures such as the lowering of social contributions, which aims at boosting demand, while increasing labour supply at the same time, and by the creation of mobility centres, which should ease the transition in the labour market and reduce labour shedding. These measures are related to the medium-term reform agenda. As a result of the recovery measures taken by the government in response to the economic crisis, the full working of the automatic stabilisers, which were further strengthened by removing social expenditure from under the expenditure ceiling⁴, and decreasing gas revenues, the budgetary position eroded very quickly in 2009. The general government budget deteriorated sharply in 2009. The surplus of 0.7% of GDP in 2008 turned into a deficit of 4.7% of GDP in 2009. The budget deficit is expected to increase further in 2010 to around 6%, before improving again in 2011 to 5½% of GDP, according to the Commission services' autumn 2009 forecast. The 2009 budget deficit exceeded the 3% of GDP reference value, and therefore triggered an excessive deficit procedure. This procedure was opened on 11 November 2009. On 2 December, the Council issued recommendations concerning the correction of the excessive deficit⁵.

Coming out of the crisis the Netherlands entails several main policy challenges for the coming years. First, the correction of the excessive deficit will require a sizeable

⁴ See section 6 for further information.

⁵ See Box 1 for more information on the excessive deficit procedure.

additional consolidation effort in order to meet the 2013 deadline. Second, the long-term sustainability of public finances poses a challenge, in particular because the future increase in age-related costs in the Netherlands is above the EU average. A third challenge to facilitate a sustained recovery is the continued strengthening of confidence in the financial sector and ensuring access to finance. The financial intermediary services are crucial for the well-functioning of the Dutch economy and a healthy financial system would lessen the need for government intervention, which would eventually lead to a lower government debt and decreasing contingent liabilities. A fourth challenge is the foreseen rise in unemployment, which increases the need for a further improvement of labour market transitions by enhancing flexicurity policies and improving (starting) qualifications of employees. This would also support labour productivity and could have a positive effect on domestic demand through higher real wage growth, without affecting negatively competitiveness. Finally, a further increase in R&D and transport infrastructure investment together with increased (re)training could soften the impact of the crisis on potential growth and lay the foundation for a durable recovery.

3. MACROECONOMIC OUTLOOK

Against the background of the current macroeconomic situation and the main policy challenges set out in the previous section, this section makes an assessment of the plausibility of the macroeconomic scenario underpinning the public finance projections of the programme.

The coverage of the alternative scenarios presented in the stability programme is limited to such a degree that the original scenario of the stability programme is used for the assessment. After a sharp contraction in 2009, estimated at 4%, the stability programme projects a recovery of economic growth to 1½ % in 2010 and 2% in both 2011 and 2012. According to the programme, the main driver behind the recovery of GDP growth in 2010 will be net exports, with an expected contribution to GDP growth of 1¼% in 2010. Stock building is also projected to have a significant positive effect on economic growth in 2010, of around 1%. On the other hand, the programme foresees a continued negative effect from domestic demand, which would mainly come from a protracted decrease in investment. For 2011 and 2012, the contributions to economic growth are expected to be more balanced, as domestic demand should pick up again, following a recovery of private consumption and a strong rebound in investment. The reversal of the stimulus measures and the additional consolidation effort seem to be reflected in the macro economic scenario, given the very limited contribution of government consumption to growth.⁶

Throughout the programme period, the output gap as recalculated by Commission services based on the information in the programme, following the commonly agreed methodology, is expected to be negative. However, it is projected to have decreased by almost 1% at the end of the programme period, to come out at -1.8% in 2012. The decreasing output gap is related to the fact that real GDP growth is foreseen to outperform potential growth over the entire programme horizon. The calculated potential output based on the programme is higher than in the Commission services' autumn 2009 forecast. This is particularly the case in 2011, where potential output in the programme comes out at 1½%, half a percentage point higher than in the autumn forecast. The

⁶ The external outlook of the programme is broadly in line with the Commission services' autumn 2009 forecast.

difference can be almost fully explained by the more benign employment growth projection in the programme.

Table 2: Comparison of macroeconomic developments and forecasts

	2009		2010		2011		2012
	COM	SP	COM	SP	COM	SP	SP
Real GDP (% change)	-4.5	-4	0.3	1.5	1.6	2	2
Private consumption (% change)	-2.7	-2½	-0.6	¼	0.6	1.5	1.5
Gross fixed capital formation (% change)	-11.7	-11¾	-6.0	-4	0.4	6	6
Exports of goods and services (% change)	-10.8	-8¾	1.9	4¾	4.1	6.5	6
Imports of goods and services (% change)	-10.6	-9¼	0.5	3½	2.9	5	5
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	-3.0	-3	-1.2	-¾	0.4	1¼	1¼
- Change in inventories	-0.5	-½	0.4	1	0.0	0	0
- Net exports	-1.0	-½	1.0	1¼	1.1	¾	¾
Output gap ¹	-2.7	-2.7	-3.1	-2.3	-2.4	-1.9	-1.8
Employment (% change)	-0.1	-¼	-2.1	-1½	-0.9	½	½
Unemployment rate (%)	3.4	5	5.4	6½	6.0	6½	6½
Labour productivity (% change)	-4.4	-3½	2.4	3¼	2.5	1½	1½
HICP inflation (%)	1.1	1	0.9	1	1.2	1	1
GDP deflator (% change)	1.0	¼	1.0	0	1.4	1	1
Comp. of employees (per head, % change)	2.6	2¾	2.5	2¼	1.7	2	2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.7	4½	2.7	5¾	3.6	6¼	6¼
<u>Note:</u>							
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.							
<u>Source:</u>							
Commission services' autumn 2009 forecasts (COM); Stability programme (SP).							

Real GDP growth in the programme (1½%) for 2010 is markedly higher than in the Commission services' autumn 2009 forecast (0.3%). Indeed, the most recently available information points to a more benign outlook for economic growth in 2010 than foreseen at the time of the autumn forecast as the GDP growth in the third and fourth quarters of 2009 surprised on the positive side and the outlook for world trade has improved, which should have a significant positive impact on export growth. This information was included in the recent Commission services' February interim forecast, which now foresees real GDP growth of 1% for 2010, bringing the difference with the programme's projection back to ½% of GDP. For 2011, the programme's forecast is also ½% of GDP higher than the autumn forecast, but this difference would be smaller when taking into account the impact of the improved outlook for 2010 on economic growth in 2011.

With regard to the components of economic growth, the assumption in the programme that the recovery will be mainly driven by net exports is in line with the Commission services' 2009 autumn forecast. However, growth of both exports and imports are more favourable than in the autumn forecast, which can be explained by the more positive outlook for world trade.

The generally more positive economic outlook for the coming years in the programme has also led to a more favourable private consumption growth than in the autumn forecast, but even after correcting for this more optimistic growth profile consumption growth in the programme still seems to be particularly on the optimistic side. The projected continued decrease in investment in 2010 is in line with the autumn forecast,

although slightly more favourable. The recovery of investment in 2011 in the programme is much more optimistic than the autumn forecast with the programme's growth projection being 5½ pp. higher.

To sum up, the macroeconomic assumptions for the programme period used in the baseline scenario of the programme appear to be overall favourable.

Employment showed a remarkable resilience in the face of the economic crisis, with the decrease being limited to ¼% in 2009. Although this can be partly explained by the usual lagged reaction of employment to changes in economic growth, it also results from the relatively flexible labour market, leading to adjustments other than through employment, e.g. through lower incidental wage increases and most importantly through fewer hours worked. Also, the introduction of the part-time unemployment scheme has had a positive impact on employment in 2009. For 2010, it is expected in both the programme and the autumn forecast that employment will decrease more strongly. The programme's view toward employment growth, however, remains somewhat more optimistic than the autumn forecast, with a projected drop of 1½% versus 2%. The programme projects a recovery of employment growth in 2011, with a growth forecast of ½%, whereas the autumn forecast still foresees a decrease of around 1%, mirroring a difference in the projected unemployment rate, which is expected to stabilise in 2011 according to the programme, but is still foreseen to increase by ½ pp. in the autumn forecast. The programme's deviations from the autumn forecast can in large part be explained by the more optimistic economic outlook of the programme and seems plausible when taking into account recent information. The lagged reaction of the labour market mentioned earlier also explains the increase in unemployment despite the fact that the output gap is expected to start closing in 2010. It is not expected that the phasing out of anti-crisis measures related to the labour market in 2010 will lead to an important negative employment effect from 2011 on, mainly in view of the projected structural shortage in labour supply resulting from ageing.

The programme expects inflation to remain stable over the programme horizon at 1% in all years, which is only slightly different from the interim forecast for 2010 (0.8%) and the autumn forecast for 2011 (1.2%). The compensation of employees in the programme is foreseen to increase by 2¼% in 2010 and 2% in both 2011 and 2012. For 2010, this is somewhat lower than the 2½% in the autumn forecast. For 2011, the programme's projection is slightly above the autumn forecast of 1¾%. The increase of labour productivity in 2010 in the programme is more positive than the wage developments, improving therefore *ceteris paribus* the profitability of firms, which suffered severely from the adverse developments in 2009. For 2011 and 2012, productivity growth in the programme is lower than wage growth, putting pressure again on profitability.

4. GENERAL GOVERNMENT BALANCE

This section consists of four parts. The first three parts discuss the budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy in the programme. The final part analyses the risks attached to the budgetary targets.

4.1. Budgetary implementation in 2009

In the January 2010 update of the stability programme the general government balance in 2009 is estimated at a deficit of 4.9% of GDP. This is slightly above the Commission services autumn 2009 forecast, which projected a general government deficit of 4.7% of

GDP⁷. In 2008, the general government balance still came out at a surplus 0.7% of GDP. The strong deterioration in 2009 is mainly the result of the sharp economic downturn, reflected in the working of the automatic stabilisers, which was reinforced by the removal of cyclically sensitive unemployment benefits from under the expenditure ceiling, and the fiscal stimulus package in response to the economic and financial crisis. The fiscal stimulus package in response to the EERP totalled 1% of GDP in 2009 and was deemed appropriate given the relatively good budgetary position at the time. Table 3 compares the projected outcome for the general government balance, revenue and expenditure (as a percentage of GDP) in 2009, as presented in the new stability programme, with the targets from the previous update of the programme. Differences between outcome and targets (excluding the impact of unanticipated GDP developments which may have affected the ratio, referred to as the ‘denominator effect’) are decomposed into the base effect associated with a different starting position (i.e. the outcome of 2008 may also have been different from what was anticipated in the previous programme update) and the impact of differences in the revenue / expenditure growth rate as compared with the planned ones⁸.

The outcome of the 2009 general government balance was substantially worse than the projection in the November 2008 update of the stability programme, which expected a surplus of 1.2% of GDP. The difference of -6.1% of GDP mainly comes from both negative revenue and expenditure surprises (including the effect of the removal of the unemployment benefits from the expenditure covered by the ceiling), capturing around 5½% of GDP. The rest comes from a more unfavourable starting position in 2008, as the outcome of a surplus of 0.7% of GDP was 0.5% lower than the previously expected surplus of 1.2% of GDP.

The focus of further analysis of the differences between the budgetary projections and their outcomes will lie on the development of growth surprises excluding the denominator effect, as nominal GDP growth turned out to be very different from the nominal GDP growth underlying the previous programme as a result of the economic and financial crisis.

Looking more closely at the surprise effects, it becomes evident that their largest part comes from lower-than-expected revenue. The total revenue surprise, excluding the denominator effect, is estimated to be -5.6% of GDP in 2009. The worse-than-expected starting position accounts for -1.0%. The lion's share of -4.6% of GDP is accounted for by a lower-than-expected revenue growth coming from decreasing taxes resulting from the economic downturn (-3.3% of GDP), the subsequent economic stimulus package (-0.3% of GDP) and lower gas revenues (-1.0% of GDP). Excluding the denominator effect, both direct and indirect taxes came out around 2% of GDP lower than was expected in the previous programme.

7 In the preliminary account, published in February 2010, the 2009 budget deficit came out at 5.3% of GDP. The difference with regard to the programme results from a reclassification of a capital injection for ABN-Amro, which increased the deficit by ½% of GDP.

8 Mathematically, the difference in the revenue ratio in Table 3 can be expressed as:

$$\rho^o - \rho^p = \underbrace{\frac{1+r^p}{1+g^p} \Delta \rho_{-1}}_{\text{Base effect}} + \underbrace{\frac{\rho_{-1}^o}{(1+g^o)(1+g^p)} \Delta r}_{\text{Revenue growth effect}} - \underbrace{\frac{\rho_{-1}^o}{(1+g^o)(1+g^p)} \Delta g}_{\text{Denominator effect}} + \underbrace{\frac{\rho_{-1}^o (r^o g^p - r^p g^o)}{(1+g^o)(1+g^p)}}_{\text{Residual}}$$

where r is the growth rate of revenue and g is the growth rate of GDP. The subscript -1 refers to the previous year's value. Superscripts o and p refer to the outcome and the planned value respectively. Similar for the expenditure ratio.

Expenditure came out 0.5% of GDP higher than previously expected, despite an 0.5% of GDP better starting position. The increase mainly resulted from the stimulus package (0.3% of GDP), higher interest rate expenditure (0.2% of GDP) and the functioning of the automatic stabilisers, which were strengthened by the removal of the unemployment benefits from under the expenditure ceiling (0.3% of GDP). The expected outcome for 2009 has not substantially been affected by unscheduled one-off measures in 2009.

Table 3: Budgetary implementation in 2009

	2008		2009	
	Planned	Outcome	Planned	Outcome
	SP Nov 2008	SP Jan 2010	SP Nov 2008	SP Jan 2010
Government balance (% of GDP)	1.2	0.7	1.2	-4.9
Difference compared to target ¹	-0.5		-6.1	
Difference excluding denominator effect ^{1,2}			-6.2	
<i>Of which:</i> due to a different starting position end 2008			-0.5	
due to different revenue / expenditure growth in 2009			-5.4	
p.m. Residual ³			-0.2	
<i>p.m. Nominal GDP growth (planned and outcome)</i>			4.5	-3.8
Revenue (% of GDP)	46.6	45.6	46.3	44.4
Revenue surprise compared to target ¹	-1.0		-1.9	
Revenue surprise excluding denominator effect ^{1,2}			-5.6	
<i>Of which:</i> due to a different starting position end 2008			-1.0	
due to different revenue growth in 2009			-4.6	
p.m. Residual ³			-0.1	
<i>p.m. Revenue growth rate (planned and outcome)</i>			3.8	-6.3
Expenditure (% of GDP)	45.4	44.9	45.1	49.3
Expenditure surprise compared to target ¹	0.5		-4.2	
Expenditure surprise excluding denominator effect ^{1,2}			-0.5	
<i>Of which:</i> due to different starting position end 2008			0.5	
due to different expenditure growth rate in 2009			-0.8	
p.m. Residual ³			-0.2	
<i>p.m. Expenditure growth rate (planned and outcome)</i>			3.8	5.7
Notes:				
¹ A positive number implies that the outcome was better (in terms of government balance) than planned.				
² The denominator effect captures the mechanical effect that, if GDP turns out higher than planned, the ratio of revenue or expenditure to GDP will fall because of a higher denominator. Although the denominator effect can be very significant for revenue and expenditure separately, on the balance they usually largely cancel against each other.				
³ The decomposition leaves a small residual that cannot be assigned to the previous components. The residual is generally small, except in some cases where planned and actual growth rates of revenue, expenditure and GDP differ significantly.				
<i>Source: Commission services</i>				

Box 1: The excessive deficit procedure (EDP) for the Netherlands

On 2 December 2009, the Council adopted a decision stating that the Netherlands had an excessive deficit in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU). At the same time, the Council addressed a recommendation under 126(7) TFEU specifying that the excessive deficit had to be corrected by 2013.

In particular, the Dutch authorities were recommended to implement the fiscal measures in 2010 as envisaged in the 2010 budget and to put an end to the present excessive deficit by 2013, while starting consolidation in 2011. In order to bring the deficit below the reference value by 2013, the Netherlands were recommended to ensure an average annual fiscal effort of $\frac{3}{4}$ % of GDP over the period 2011-2013, which should also contribute to halting the rapid rise of the government gross debt ratio, which was forecast to breach the reference value 2010. The Dutch authorities should also specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected. The Council established the deadline of 2 June for the Dutch government to take effective action to implement the fiscal measures in 2010 as envisaged and to outline in some detail the consolidation strategy that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared to the economic outlook in the Commission services' autumn 2009 forecast.

The Dutch authorities should also report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2010 and 2013.

An earlier EDP for the Netherlands had been initiated in April 2004⁹ in view of a deficit of 3.2% of GDP in 2003 and led to Council recommendations to the Netherlands setting a deadline of 2005 at the latest for the correction of the excessive deficit. In June 2005, following a deficit below 3% of GDP already in 2004, the Council decided to abrogate its decision on the existence of an excessive deficit under Article 104(12).

4.2. The programme's budgetary strategy for 2010

According to the programme, the government deficit is expected to increase to 6.1% of GDP in 2010 from 4.9% of GDP in 2009. The revenue ratio should decrease slightly by 0.1% of GDP, whereas the expenditure ratio is expected to rise by 1.1% of GDP. The budgetary projections presented in the programme are broadly in line with the budget for 2010, which was sent to Parliament on 15 September 2009 and projected a deficit of 6.3% of GDP. The slightly more optimistic outcome in the programme compared to the 2010 budget, despite a negative base effect by 0.1% of GDP from 2009, is particularly due to the more favourable macro-economic prospects. Whereas the 2010 budget projected real GDP growth to come out at zero growth for 2010, the programme now expects real GDP growth of 1½% of GDP. The budgetary figure for 2010 does not appear to benefit fully from the improved economic outlook. This is in mainly due to the fact that the improved outlook is particularly concentrated on the tax-poor external side, thereby effectively lowering standard elasticities. The programme does not contain any new policy measures vis-à-vis the budget. At face value, the target for 2010 as presented in the programme is consistent with the latest recommendations under Article 126(7) TFEU addressed to the Netherlands (see also box 1 as described above), which stated

⁹ All the necessary documents relating to excessive deficit procedures can be found at: http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/excessive_deficit9109_en.htm

that the Netherlands should implement the fiscal measures in 2010 as envisaged in the 2010 budget. The budgetary strategy for 2010 is mainly characterised by a continuation of the fiscal stimulus package. Total stimulus measures in 2010 amount to approximately 1% of GDP, almost equal to 2009. The measures are evenly spread between the revenue and the expenditure side. Measures supporting households amount to 0.2% of GDP in 2010 and mainly consist of the (permanent) lowering of social contributions. With respect to those supporting investment, the authorities mainly plan to invest directly in infrastructure projects, notably by frontloading projects, leading to a fiscal stimulus in this category of around 0.4% in 2010. Measures to support the labour market should represent 0.1% of GDP in 2010, referring mainly to the part-time unemployment scheme. Finally, those measures intended to support businesses make up approximately 0.3% of GDP in 2010. The most important measures in this category are the possibility for accelerated depreciation of investments and the abolition of the plane ticket tax. Although the measures of the stimulus package and their budgetary impact are described in detail in the programme, the programme could have benefited from a more comprehensive overview of all planned measures, including those not directly related to the economic and financial crisis. In the programme there are no planned one-off measures foreseen for 2010.

Besides the stimulus measures, the main measures on the expenditure side for 2010 are the increase in benefits for chronically ill and handicapped (by 0.1% of GDP) and the cost decrease of medical specialists (by 0.1% of GDP). The first measure is intended as a compensation for the abolition of the deductibility of exceptional expenses in health care in 2009. The measures addressed to medical specialists are taken in response to their expenditure overruns.

In total, the revenue ratio is expected to decrease by 0.1 percentage point of GDP in 2010. With a real and nominal GDP growth of 1½% of GDP the ratio is not significantly influenced by the denominator effect, although revenues in nominal terms are expected to be slightly higher than in 2009.

The main measures on the revenue side, besides the stimulus measures, are the further limitation of deductibility of exceptional health care costs (0.2% of GDP), the increase in premiums for employees insurances (0.2% of GDP) and the phasing out of the taxes on cars and motor vehicles (- 0.1% of GDP). The gradual phasing out of the car and motor vehicle tax is partly compensated by an increase in the tax on owning cars and/or motor vehicles. In total, the expenditure ratio is expected to increase by 1.1% of GDP in 2010. With nominal GDP growth at 1½% of GDP, the ratio is not significantly influenced by the denominator effect.

The 2010 structural balance in the programme, as recalculated by the Commission services according to the commonly agreed methodology, shows a deterioration from -3¾% of GDP in 2009 to -4¾% of GDP in 2010. In comparison, the Commission services Autumn forecast foresaw an increase from 3.6% of GDP to 4.4% of GDP. In these uncertain times the cyclically-adjusted and structural balances need to be interpreted with caution. The deterioration of the structural balance in 2010 can partly be explained by higher interest expenditure and decreasing gas revenues but most importantly by the lagged effects, like increasing unemployment, which leads to higher expenditure and lower tax revenues than would be suggested when using standard elasticities. The overall effect of discretionary measures in 2010 is negligible, as higher discretionary expenditure is matched by tax increases.

Looking at the evolution of the nominal balance by sub-sector of general government, the programme indicates that the expected deficit for 2010 of 6.1% of GDP consists of a

deficit of 4.4% of GDP of the central government, a deficit of 0.7% of GDP of local governments and a 1% of GDP deficit in social security funds.

Table 4. Main budgetary measures for 2010

Revenue measures ¹	Expenditure measures ²
<ul style="list-style-type: none"> • Limitation of deductibility of exceptional health care costs (0.2% of GDP) • Increased premiums for employees insurances (0.2% of GDP) • Phased reduction of taxes on cars and motor vehicles (-0.1% of GDP) 	<ul style="list-style-type: none"> • Increased benefits for chronically ill and handicapped (0.1% of GDP) • Measures redressing costs of medical specialists (- 0.1% of GDP)
<p><u>Notes:</u></p> <p>¹ Estimated impact on general government revenue</p> <p>² Estimated impact on general government expenditure</p> <p><i>Source: Commission services and the 2009 and 2010 Budget memoranda.</i></p>	

4.3. 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.

The main goal of the programme's medium-term budgetary strategy is to bring the deficit below 3% of GDP by 2013 and to further consolidate towards the MTO. The consolidation is foreseen to start in 2011 provided growth prospects are positive. The programme indicates that the Dutch authorities are firmly committed to respect the 2013 deadline for correction of the excessive deficit. This would be in line with the latest recommendations under Article 126(7) TFEU. However, 2013 is not included in the programme horizon and the programme does not present targets for a credible adjustment path to achieve the deadline. According to the programme the new Dutch MTO is a structural balance of -0.5% of GDP. A target year for achieving this is not mentioned. The update indicates that further progress towards the MTO could be secured by the introduction of a Deficit Reduction Act¹⁰, which states that the structural deficit should improve by at least 0.5% of GDP annually. This improvement would also be obligatory after the correction of the excessive deficit. The draft act also mentions that Council recommendations in case of an excessive deficit have to be adhered to at all times. Therefore, it could be helpful both in reaching the MTO in the medium-term, and in reaching the required average fiscal effort to correct an excessive deficit situation.

¹⁰ The status of this act is unclear in view of the upcoming general elections.

Box 2: The medium-term objective (MTO) for the Netherlands

As noted in the Code of Conduct¹¹, the MTO aims to (a) provide a safety margin with respect to the 3% of GDP deficit limit; (b) ensure rapid progress towards fiscal sustainability; and (c) allow room for budgetary manoeuvre, in particular taking into account the needs for public investment. The MTO is defined in cyclically adjusted terms, net of one-off and other temporary measures. On 7 July 2009, the ECOFIN Council took note of a new methodology for setting MTOs, ensuring that implicit liabilities (costs related to ageing populations, in particular projected healthcare and pension expenditure) are also accounted for.

Specifically, the country-specific MTOs should take into account three components: (i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; (ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and (iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure. This implies a partial frontloading of the budgetary cost of ageing irrespective of the current level of debt. In addition to these criteria, MTOs should provide a safety margin with respect to the 3% of GDP deficit reference value and, for euro area and ERM II Member States, in any case not exceed a deficit of 1% of GDP.

As communicated by the authorities, the MTO of the Netherlands is a structural balance of -0.5% of GDP. In view of the new methodology¹² and given the most recent projections and debt level, the MTO reflects the objectives of the Pact.

Regarding the timing of the adjustment path, after an increase in the headline deficit from 4.9% of GDP in 2009 to 6.1% of GDP in 2010, the programme expects the deficit to improve to 5.0% of GDP in 2011 and 4.5% of GDP in 2012. The primary balance is expected to follow a similar pattern. The structural balance, as recalculated by the Commission's services according to the commonly agreed methodology, is expected to deteriorate to -4¾% of GDP in 2010 and to improve thereafter to -4% of GDP in 2011 and -3½% of GDP in 2012. The annual average fiscal effort according to the programme, as calculated by the change in the structural balance based on the commonly agreed methodology in the period 2011-2012 amounts to 1.3 percentage points, which would round of to a narrow average fiscal effort of ¾% percentage points. While, at face value, this could still be considered to be in line with the recommendation as addressed to the Netherlands under article 126(7) TFEU, this appears to be a minimalistic approach, especially with regard to 2012, also in view of the improved macro-economic outlook.

¹¹ "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 on 10 November 2009, available at: http://ec.europa.eu/economy_finance/sgp/legal_texts/index_en.htm

¹² The country-specific MTOs should take into account three components: i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure.

Furthermore, there are significant risks to this adjustment path, see section 4.4 for further details.

For 2011, the budgetary target is underpinned by clearly specified measures, which in essence consist of the (partial) withdrawal of the stimulus package amounting to approximately ½% of GDP and an additional consolidation package amounting to ¼% of GDP (EUR 1.8 billion). The consolidation measures for 2011 are well specified in the programme and are concentrated on the expenditure side. The measures are mainly related to the local governments, but also to infrastructures, education and domestic affairs, which already entered the budgets of the respective ministries. The authorities also intend to moderate wages, through the public wage bill and the social benefits, which are linked to wage developments. It is, however, indicated in the programme that the consolidation effort is conditional upon a projected economic growth of at least 0.5% of GDP in that year. According to the programme, the strategy for 2011 leads to an improvement of the nominal balance by 1.1% of GDP and an improvement of the structural balance by around 1% of GDP in 2011. The revenue ratio is expected to increase from 44.3% of GDP to 44.9% of GDP in 2011. The expenditure ratio is expected to decrease from 50.4% in 2010 to 49.9% of GDP in 2011.

For 2012, the programme is based on a no-policy-change scenario and does not contain any additional policy measures. The income ratio is expected to increase further to 45.5% of GDP, while the expenditure ratio should roughly stabilise at 50.0% of GDP.

In the programme it is mentioned that the authorities intend to take additional measures in order to assure the correction of the excessive deficit in 2013. To this end the text mentions a three pillar strategy: i) 20 high level working groups were established to identify structural reform and saving options in a wide range of policy areas, with potential savings of around € 30-40 billion, which are expected to present their results by May 1st ¹³; ii) maintaining and improving the sound budgetary framework; iii) making use of the outcome of the Budgeting Framework Commission¹⁴ (experts from several ministries, the central bank and the Netherlands Bureau for Economic Policy Analysis (CPB)) which gives an advice to the next government on how to deal with the challenges for budgetary policies. At this point the nature and size of additional measures needed for the timely correction of the excessive deficit are not yet clear.

¹³ The reporting date will most probably be brought forward in view of the elections in June 2010.

¹⁴ Studiegroep Begrotingsruimte.

Table 5: Composition of the budgetary adjustment

(% of GDP)	2008	2009		2010		2011		2012	Change: 2009-2012
	COM	COM	SP	COM	SP	COM ¹	SP	SP	SP
Revenue	46.6	44.8	44.4	44.8	44.3	45.1	44.9	45.5	1.1
<i>of which:</i>									
- Taxes on production and imports	12.1	11.9	11.9	11.7	11.7	11.5	11.8	11.9	0.0
- Current taxes on income, wealth, etc.	11.6	11.6	12.0	10.8	11.4	11.1	11.5	11.7	-0.3
- Social contributions	15.2	14.0	14.2	14.9	15.2	15.0	15.6	15.7	1.5
- Other (residual)	7.6	7.2	6.3	7.4	6.0	7.4	6.0	6.2	-0.1
Expenditure	45.9	49.5	49.3	50.9	50.4	50.7	49.9	50.0	0.7
<i>of which:</i>									
- Primary expenditure	43.8	47.1	46.9	48.5	48.0	48.2	47.5	47.5	0.6
<i>of which:</i>									
Compensation of employees	9.1	9.7	9.9	9.8	9.9	9.7	9.7	9.5	-0.4
Intermediate consumption	7.4	8.0	8.0	8.0	7.9	7.8	7.8	7.7	-0.3
Social payments	20.2	22.0	22.3	22.8	22.9	22.8	22.4	22.0	-0.3
Subsidies	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4	0.0
Gross fixed capital formation	3.5	3.7	3.7	3.9	3.8	3.9	4.1	4.4	0.7
Other (residual)	2.4	2.3	1.4	2.6	2.0	2.6	2.2	2.4	1.0
- Interest expenditure	2.1	2.4	2.4	2.4	2.4	2.5	2.4	2.5	0.1
General government balance (GGB)	0.7	-4.7	-4.9	-6.1	-6.1	-5.6	-5.0	-4.5	0.4
Primary balance	2.8	-2.3	-2.5	-3.7	-3.7	-3.1	-2.6	-2.0	0.5
One-off and other temporary measures	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0	-0.4
GGB excl. one-offs	0.7	-5.0	-5.3	-6.1	-6.1	-5.6	-5.0	-4.5	0.8
Output gap ²	3.0	-2.7	-2.7	-3.1	-2.3	-2.4	-1.9	-1.8	0.9
Cyclically-adjusted balance ²	-1.0	-3.2	-3.4	-4.4	-4.8	-4.3	-3.9	-3.5	-0.1
Structural balance³	-1.0	-3.6	-3.8	-4.4	-4.8	-4.3	-3.9	-3.5	0.3
<i>Change in structural balance</i>		-2.6	-2.8	-0.9	-1.0	0.1	0.9	0.4	
Structural primary balance ³	1.1	-1.2	-1.4	-2.0	-2.4	-1.8	-1.5	-1.0	0.4
<i>Change in structural primary balance</i>		-2.3	-2.5	-0.8	-1.0	0.2	0.9	0.5	
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 2009 forecasts (COM); Commission services' calculations									

4.4. Risk assessment

This section discusses the plausibility of the programme's budgetary projections by analysing various risk factors. For the period until 2011, Table 5 compares the detailed revenue and expenditure projections in the Commission services' autumn 2009 forecast, which are derived under a no-policy change scenario, with those in the updated programme. However, although the assessment uses the Commission services' forecast as a benchmark, it also takes explicitly into account all available information about more recent developments.

As concluded in Section 3 above, the macro-economic scenario appears favourable for the entire programme period. With an expected deficit of 6.1% of GDP, the general government balance in 2010 as presented in the programme is fully in line with the Commission services' autumn forecast even though the macro-economic scenario underlying the programme is more optimistic. The better macro-economic outlook compared to the Commission services' autumn forecast is mainly concentrated in an improved external environment, which does not result in significantly higher revenue for the general government balance. Furthermore, the 2009 deficit came out 0.2% worse than

expected in the autumn forecast. From 2010 onwards, the favourable macro-economic scenario compared to the Commission services autumn forecast implies a risk that the deficit for 2011 and 2012 may be worse than expected.

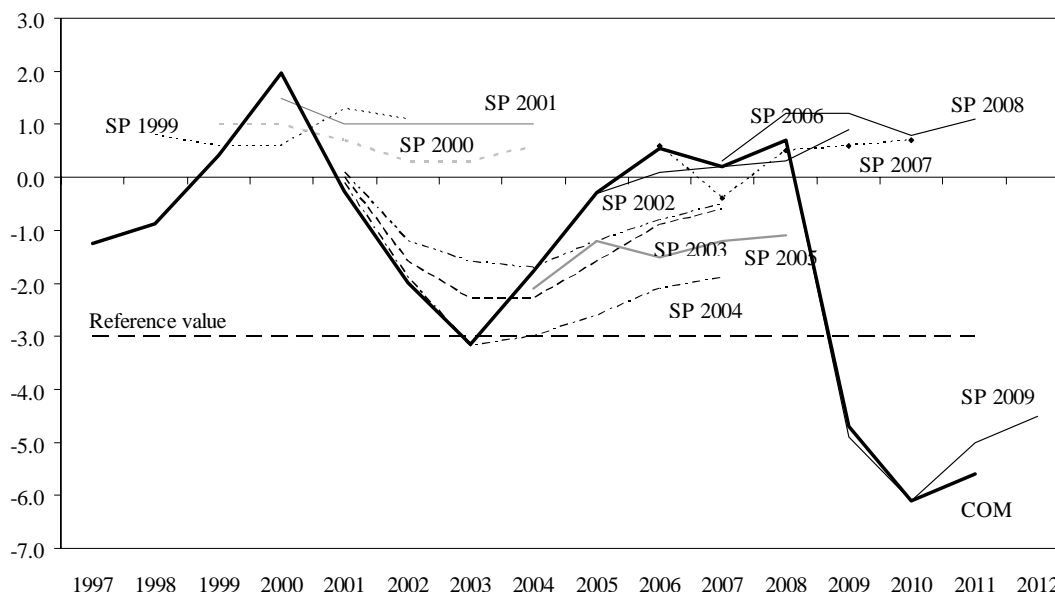
As already indicated above, the programme does not provide sufficient information about all the measures underlying the budgetary target for 2010. However, based on the planned measures and their quantification contained in the 2010 budget memorandum, it seems that the expenditure target for 2010 is slightly favourable, as it is 0.5% of GDP lower than the projected in the Commission services' autumn forecast. This is compensated by the 0.5% of GDP lower revenue target compared to the projection of the autumn forecast. Given the more optimistic macroeconomic outlook for 2010 of the programme compared to the autumn forecast, the difference in revenue projection mainly results from a generally lower sensitivity of revenues to GDP growth in the programme. Therefore, on the revenue side, the programme's projections for 2010 appear to be on the cautious side. The gas revenues, normally one of the most volatile revenues in the budget are based on an expected oil price of € 52, which is in line with most recent projections.

For 2011, the overall consolidation package amounting to € 1.8 billion is well specified. Nevertheless, there is some risk that not all savings of the consolidation measures are realised, given that a large part of the consolidation package refers to local governments, which are difficult to monitor. Furthermore, the social payments might turn out higher, given that the increase in the unemployment rate is somewhat higher in the autumn forecast than in the programme. The programme indicates that the input from the Fundamental Budget Review (FBR), which presents options in a wide range of policy areas, with potential savings of around EUR 30-40 billion, will constitute a basis for the preparation of the 2011 Budget Memorandum. The FBR could therefore serve as a basis for additional consolidation measures starting in 2011. The size and nature of these possible additional measures are, however, not yet clear.

For 2012, the programme projects a general government deficit of 4.5% of GDP under a no-policy change scenario. Overall, the change in the revenue and expenditure ratios presented in the programme relative to 2011 appear somewhat favourable. This is supported by the fact that the improvement of the structural balance in 2012 is not based on additional measures, but seems to come from a positive contribution from cyclical conditions, which cannot be explained by using standard elasticities. The projected positive contribution of cyclical conditions therefore poses a real risk that the structural and headline balance may come out worse than expected, which suggests that additional consolidation measures are needed to ensure an average annual fiscal effort of ¾% of GDP. The outcome of the FBR could, however, also have a positive impact on the 2012 budget.

When looking at the track record for the Dutch budget and in particular budgetary consolidation, it is relatively good. Their previous excessive deficit was corrected within one year, which was one year ahead of the deadline. Figure 1 shows the government balance projections in successive programmes compared to the actual outcome and Commission services' autumn 2009 forecast. The figure indicates that if targets are missed, this usually happens in downturns, as was the case in 2009. During times of economic recovery, targets were mostly underestimated. Given the relatively benign outlook for economic growth, the track record does not provide an additional risk in the current juncture.

Figure 1: Government balance projections in successive programmes (% of GDP)



Source: Commission services' autumn 2009 forecast (COM) and successive stability programmes

To stabilise the financial system, the Dutch government adopted a number of measures. First, it increased the amount covered by the deposit guarantee scheme to €100 000. Second, a credit guarantee scheme amounting to EUR 200 billion (33% of GDP) for medium-term debt instruments by banks was introduced. The programme indicates that of the EUR 200 billion credit guarantee scheme, currently EUR 47.2 billion is effectively guaranteed. Third, an initial amount of EUR 20 billion (3.3% of GDP) was made available for the recapitalisation of financial institutions. Finally, the government nationalised a major bank (the Dutch parts of Fortis including Fortis' share in ABN AMRO), and provided assistance to large financial institutions in the form of an illiquid asset back-up facility (to ING) and a capital relief instrument and mandatory convertible notes (for ABN AMRO). The measures involving guarantees pose a significant indirect risk for the general government balance and debt, if these are extensively called upon. The recapitalisation measures are already included in the debt figures, however if these are not recovered they will negatively affect the general government balance.

Overall, based on the information presented in the programme and given the above analysis of several risk factors, the risks to the budgetary figure presented in the programme for 2010 seem to be balanced and the budgetary strategy for 2010 set out in the programme seems to be consistent with the Council recommendations under Article 126(7). For 2011 and 2012, there are mainly negative risks to the budgetary projections. Taking into account these risks, the budgetary strategy from 2011 onwards is partly consistent with the Council recommendations under Article 126(7), although 2013 is not included in the programme horizon.

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.

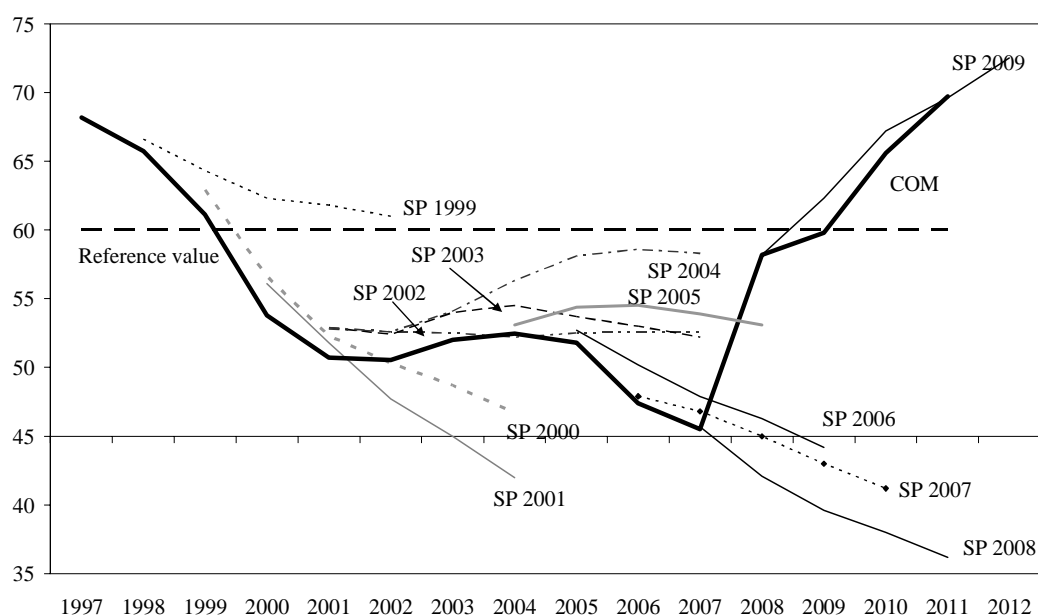
5.1. Recent debt developments and medium-term prospects

5.1.1. Debt projections in the programme

The debt-to-GDP ratio fell below the 60% reference value in 2000 and remained relatively stable at somewhat above 50% over the following five years. In 2006, the debt ratio decreased further and reached 45.5% in 2007 as high economic growth was combined with budget surpluses.

In 2008, general government gross debt increased sharply to 58.2% of GDP despite a 1% budget surplus. This increase was caused by the government operations to stabilise the financial markets, concerning capital injections and nationalisation of Fortis Bank Nederland, leading to a massive stock-flow adjustment of around 15% of GDP, and almost fully explains the total stock-flow adjustment of 15.5% of GDP in 2008. The 2008 update of the stability programme did not yet include the consequences of the economic and financial crisis for the debt level, e.g. the government interventions to stabilise the financial markets. This resulted in a projected decrease of the debt level in 2009 to around 40% of GDP. Due to the government interventions and the worse than expected government balance, the actual outcome of the debt level for 2009 was 62.3% of GDP, according to the January 2010 programme, thereby breaching the 60% Treaty reference value.

Figure 2: Debt projections in successive programmes (% of GDP)



Source: Commission services' autumn 2009 forecast (COM) and successive stability programmes

The stock-flow adjustment in 2008 was almost entirely made up of the government interventions in the capital markets. As indicated above, these consisted of capital injections, loans and the purchase of a private bank by the Dutch government. The debt increase resulting from the stock-flow adjustment therefore simultaneously led to an increase in financial assets. For 2009, the negative stock-flow adjustment can in large part be explained by the repayment of a short-term loan of the privatised bank in 2009, which was issued in 2008 and amounted to over 5½% of GDP.

Table 6: Debt dynamics

(% of GDP)	average 2003-07	2008	2009		2010		2011		2012
			COM	SP	COM	SP	COM	SP	SP
Gross debt ratio ¹	49.8	58.2	59.8	62.3	65.6	67.2	69.7	69.6	72.5
Change in the ratio	-1.0	12.7	1.6	4.1	5.8	4.9	4.1	2.4	2.9
<i>Contributions</i> ² :									
1. Primary balance	-1.5	-2.8	2.3	2.5	3.7	3.7	3.1	2.6	2.0
2. "Snow-ball" effect	0.4	0.0	4.5	4.7	1.7	1.5	0.6	0.5	0.5
<i>Of which:</i>									
Interest expenditure	2.3	2.1	2.4	2.4	2.4	2.4	2.5	2.4	2.5
Growth effect	-1.1	-0.9	2.7	2.4	-0.1	-0.9	-1.0	-1.3	-1.4
Inflation effect	-0.9	-1.2	-0.6	-0.2	-0.6	0.0	-0.9	-0.6	-0.7
3. Stock-flow adjustment	0.1	15.5	-5.2	-3.0	0.4	-0.3	0.4	-0.6	0.4
<i>Of which:</i>									
Cash/accruals diff.	0.1	1.6	0.2	0.5	0.0	0.0	0.1	-0.9	0.1
Acc. financial assets	0.0	13.8	-0.1	-3.3	0.1	-0.3	-0.1	0.3	0.3
<i>Privatisation</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Val. effect & residual	0.0	0.0	-1.9	2.0	-1.1	-0.8	-1.0	-2.0	-2.0
Notes:									
¹ End of period.									
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.									
<i>Source:</i>									
<i>Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations</i>									

5.1.2. Assessment

For 2010, the debt ratio in the programme is about 1½% of GDP higher than the Commission services' autumn forecast. This is mainly due to the fact that takeover of the mortgage portfolio of ING is included in the debt figures presented in the programme, while in the autumn forecast this takeover was still treated as a guarantee, therefore without affecting the debt ratio. Although the debt ratio for 2011 presented in the programme is similar to the autumn forecast, its increase is smaller. This is due to a more positive outlook of the programme for the primary balance and the stock-flow adjustments.

As mentioned in section 4.4, there are considerable risks to the general government gross debt level, which mainly come from sizeable guarantees to the financial sector, which currently amount to almost 14% of GDP. If activated, these would further increase the debt ratio. There are also risks coming from higher-than-targeted deficits, particularly with regard to 2011 but also for 2012. On the other hand, (early) repayments of government support by financial institutions could substantially lower the debt ratio.

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

5.2.1. Sustainability indicators and long-term debt projections

This section presents sustainability indicators based on the long-term age-related government spending as projected by the Member States and the EPC in 2009 according to an agreed methodology¹⁵.

Table 7 shows that age-related spending is projected to rise by 9.4 percentage points between 2010 and 2060, which is significantly above the EU average (4.6 pps.). Sustainability indicators for two scenarios are presented in Table 8. 'The 2009 scenario' is based on a no-policy-change assumption and the 2009 structural primary balance as a starting year, while 'the programme scenario' takes into account the consolidation planned in the programme up to 2012 and is based on the projected 2012 structural primary balance as a starting position. Including the increase of age-related expenditure and assuming that the structural primary balance remained at its 2009 level, the sustainability gap (S2)¹⁶ would amount to 8.5% of GDP; about 6 percentage points more than in last year's assessment. This is mainly due to a deterioration in the estimated structural primary balance in the starting year. Additionally, the rise in age-related expenditure is also higher in the 2009 projections than in the previous ones. The starting budgetary position is not sufficient to stabilize the debt ratio over the long-term and entails a risk of unsustainable public finances even before considering the long-term budgetary impact of ageing.

The "programme scenario" foresees the structural primary balance worsening in 2010 and thereafter improving, however remaining negative up to the end of the programme period. Consequently, the sustainability gap is only slightly smaller than in the "2009 scenario". Thus, even if the budgetary consolidation planned in the programme was achieved, risks to long-term sustainability of public finances would be only slightly mitigated.

Table 7: Long-term age-related expenditure: main projections

(% of GDP)	2007	2010	2020	2030	2040	2060	Change 2010- 60
Total age-related spending	20.5	20.5	22.6	25.6	28.5	29.9	9.4
- Pensions	6.6	6.5	7.8	9.3	10.3	10.5	4.0
- Healthcare	4.8	4.9	5.3	5.6	5.8	5.8	0.9
- Long-term care	3.4	3.5	4.1	5.4	6.8	8.1	4.6
- Education and unemployment benefits	5.7	5.6	5.4	5.4	5.5	5.4	-0.2
Property income received	2.6	2.4	2.1	1.7	1.4	1.0	-1.4

Source: Economic Policy Committee and Commission services.

¹⁵ Economic Policy Committee and the European Commission (2009), '2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-60)', *European Economy* No. 2/2009. European Commission (2009), 'Sustainability Report 2009', *European Economy* No. 9/2009. European Commission (2008), 'Public finances in EMU – 2008', *European Economy* No. 4/2008..

¹⁶ The S2 indicator is defined as the change in the current level of the structural primary balance required to make sure that the discounted value of future structural primary balances (including the path of property income) covers the current level of debt.

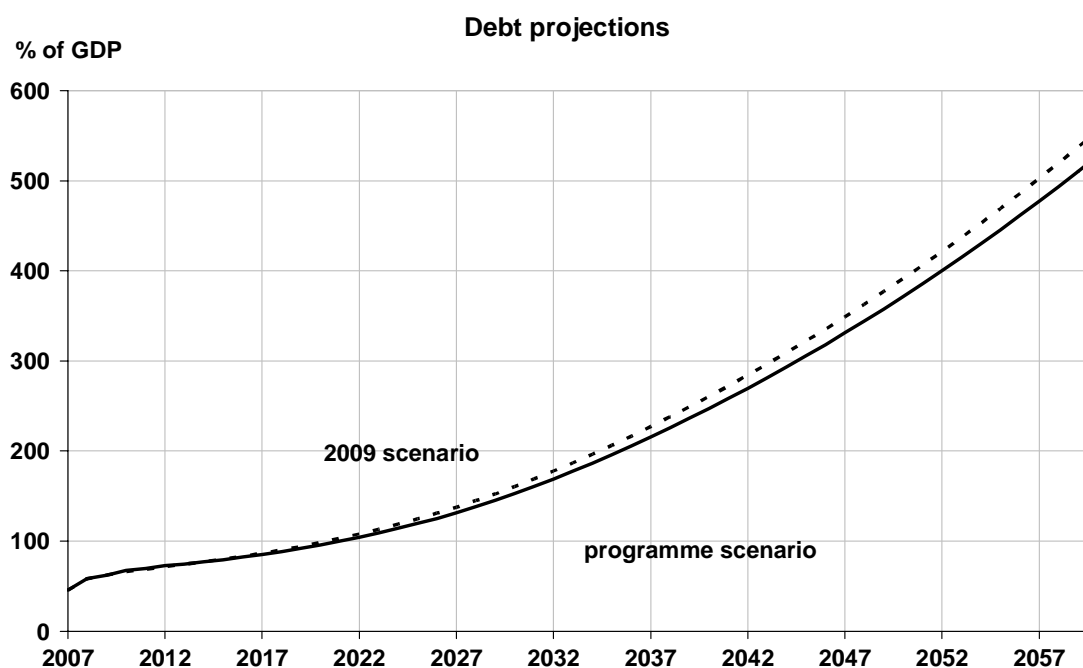
Table 8: Sustainability indicators and the required primary balance

Value	2009 scenario			Programme scenario		
	S1	S2	RPB	S1	S2	RPB
Value	7.1	8.5	6.5	6.7	8.1	6.5
<i>of which:</i>						
Initial budgetary position (IBP)	3.3	3.6	-	2.9	3.2	-
Debt requirement in 2060 (DR)	0.2	-	-	0.2	-	-
Long-term change in the primary balance (LTC)	3.6	4.9	-	3.6	4.9	-

Source: Commission services.

Based on the assumptions used in the projection of the age-related expenditure and the calculation of the sustainability indicators, Figure 3 displays the projected debt-to-GDP ratio over the long-term.

Figure 3: Long-term projections for the government debt ratio

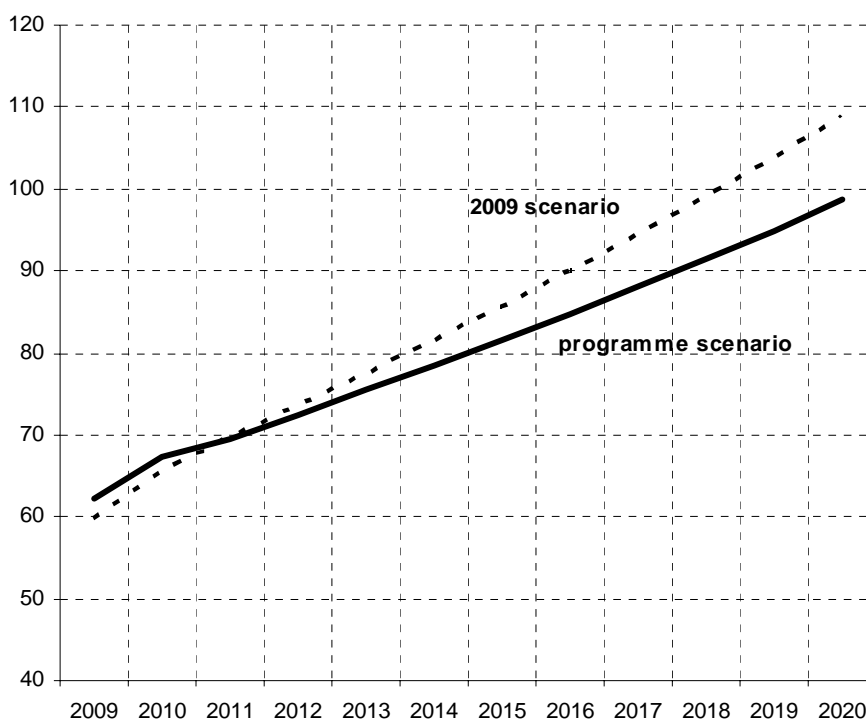


Note: Being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication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

Source: Commission services.

Based on the alternative assumptions of economic developments presented in the Commission services' autumn 2009 forecast publication¹⁷, Figure 4 shows the projected medium-term trajectory of the debt/GDP ratio. The projected debt trajectories reveal relatively similar paths under both sets of assumptions, reaching the level of about 100% of GDP in 2020. However, the debt levels in the 2009 scenario would increase at a faster pace than under the baseline assumptions presented above, when the most recent economic developments are taken into account.

Figure 4: Medium-term projections for the government debt ratio



Source: Commission services.

5.2.2. Additional factors

For an overall assessment of the sustainability of public finances, other relevant factors are taken into account (Table 9). Notably the fact that the structural primary balance is projected to remain negative weighs on the risk of the long-term sustainability of public finances. On the other hand, the programme presents additional sustainability calculations due to the proposed pension reform, which would eventually raise the pension age by two years (from 65 to 67) by 2025. According to the programme, this would narrow the sustainability gap by 0.7% of GDP (to 7.8% of GDP). While it can be considered as an important step in improving sustainability of public finances, the

¹⁷ Section 3.5 in European Commission (2009), 'European Economic Forecast – autumn 2009', European Economy No. 10/2009. This economic scenario assumes that the output gap caused by the crisis will be closed by 2017.

additional factors all together do not change the overall assessment of the long-term sustainability of public finances.

Table 9: Additional factors for the assessment of long-term sustainability risks.

	Impact on risk
Debt and pension assets	na
Decline in structural balance until 2011 in COM Autumn 2009 forecast	-
Alternative projection of cost of ageing	
Strong decline in benefit ratio	na
High tax burden	na
Difference between S1 and S2	na
<p><i>Note: '-' factor tends to increase the risk to sustainability, '+' factor tends to decrease the risk to sustainability.</i></p> <p><i>'na': not applicable.</i></p> <p><i>Alternative projections are often presented in the programmes, whose assumptions often diverge from the common method. Projections currently discussed in the Economic Policy Committee but not yet published, are for the time being also considered "unofficial".</i></p> <p><i>An explanation on these factors can be found in chapter V of: European Commission (2009), Sustainability Report 2009, European Economy No. 9/2009.</i></p> <p><i>Source: Commission services.</i></p>	

5.2.3. Assessment

The long-term budgetary impact of ageing is significantly higher than the EU average, due to relatively high increases in both pension and long-term care expenditure. Ensuring higher primary surpluses over the medium term together with structural reforms that curb the projected increase in age-related expenditure would contribute to reducing the high risks to the sustainability of public finances. The proposed increase in the pension age by two years (from 65 to 67) by 2025 is estimated to narrow the sustainability gap slightly and would be an important first step in improving the sustainability of public finances if it is implemented.

The gross debt ratio exceeded the Treaty reference value in 2009 and is planned to remain above this value over the whole programme period. Medium-term debt projections that assume GDP growth rates to only gradually recover to the values projected before the crisis and tax ratios to return to pre-crisis levels show that the budgetary strategy envisaged in the programme, taken at face value, would not be enough to stabilise the debt-to-GDP ratio by 2020. The implementation of measures planned in the programme the – 'programme scenario' – would increase the debt ratio to around 100% of GDP by 2020.

6. INSTITUTIONAL FEATURES OF PUBLIC FINANCES

6.1. Fiscal framework

The trend-based budgetary framework introduced in 1994 has been generally considered to be efficient and effective¹⁸. Most important are the multi-annual expenditure ceilings and the role of independent organisations, particularly the National Bureau for Economic Policy Analysis (CPB)¹⁹. The framework has a four-year horizon. After elections, when a new coalition government is formed, a medium-term budgetary target is set for the general government balance. The underlying macro-economic scenario is provided for by the CPB²⁰, which ensures the objectivity and independence of the projections. The targets are not enshrined in law, but are embedded in a coalition agreement. They are based on the required fiscal adjustment during the government period, which depends on the fiscal challenges with regard to ageing and the requirements of the Stability and Growth Pact.

The level of spending, related to the budgetary targets of the coalition agreement, is then captured in an expenditure ceiling, one of the key elements of the trend-based fiscal framework. The ceiling is divided into three sub categories: the 'core' central government sector, the social security sector and the healthcare sector. The ceiling is defined in net terms, i.e. gross expenditures minus certain non-tax revenues. Savings in one category may only be used to finance additional spending in the other categories in exceptional circumstances. The expenditure ceilings are in real terms, i.e. they are annually updated with the most recent forecast for the domestic demand deflator.²¹

The coverage of the expenditure ceiling is wide, but not exhaustive. The four main items that are excluded are expenditures from the Fund for Economic Structure enhancement (FES), interest payments, spending of local governments and tax expenditures. The FES is mainly funded with natural gas revenues. It has been separated from the budget process in order to safeguard a sufficiently high level of (infrastructure) investments. While this can be seen as an advantage from a political economy perspective, this earmarking has the disadvantage of separating the infrastructure investments from the choices faced in the general budgetary process and of reducing the reach of the expenditure ceilings.

The expenditure ceilings are strictly separated from revenues²². As for the expenditure ceiling, discretionary changes in taxes are determined for the entire government term.

¹⁸ See for example IMF, 2001a, Code of good practices on fiscal transparency and OECD, 2002, Best practices for budget transparency, OECD journal on budgeting.

¹⁹ See also IMF (2005) country report 05/225 and the European Commission (2007) Public Finances in EMU 2007 and Bos, F., "The Dutch fiscal framework; history, current practice and the role of the CPB", *CPB document 150*, Netherlands Bureau for Economic Policy Analysis, The Hague, July 2007.

²⁰ The National Bureau for Economic Policy Analysis is better known as Centraal Planbureau (CPB) and is an independent governmental forecasting institution.

²¹ Up until 2002 the GDP deflator was used.

²² Revenues consist of central government tax revenues, social contributions and non-tax gas revenues (+/- 41% of GDP) and are excluding other non-tax revenues (+/- 3% of GDP), which are accounted for under the expenditure ceiling.

Consequently, taxes and social contributions will only depend on non-policy factors, thus allowing the revenues to act fully as automatic stabilisers.²³

In practice, the expenditure ceiling is well respected. The success is linked to the fixed nature of the framework, which turns the attention away from total expenditure and gives incentives to line-ministries to look for expenditure reallocations to finance new policy measures. It also reflects the fact that economic forecasts used to calculate the ceilings are based on projections from an independent institution.²⁴ Since 2004, the framework also contains a signal value for the government deficit: when the deficit approaches 2% of GDP, measures to increase revenues or cut expenditure should be taken.²⁵

At the end of 2008, in reaction to the financial crisis, the government updated the set of fiscal rules, notably removing expenditures and non-tax revenue (e.g. interest and dividend receipts) resulting from interventions in the financial sector from the expenditure ceiling²⁶. In March 2009, the government also decided that the cyclically sensitive unemployment benefits would be removed from under the expenditure ceilings. This measure prevented that pro-cyclical budget cuts had to be made as a result of increasing unemployment and led to a strengthening of automatic stabilisers (by about 0.3% of GDP in 2009).

The trend-based budgetary framework seems to have played a beneficial role in the current fiscal situation. Automatic stabilisers were allowed to work optimally and were even strengthened further by the removal of cyclically sensitive unemployment benefits from under the ceiling. During an economic recovery, the trend-based fiscal framework will also have an important added value. While the automatic stabilisers are expected to automatically improve the budgetary stance, the ceilings on the expenditure side will serve as an instrument to control expenditure growth.

6.2. Quality of public finances

In the Netherlands there seem to be no specific problem areas related to the quality of public finances. In some areas, the Netherlands can be considered as a relative good performer. This is particularly the case in the fields of public infrastructure, general services and the fiscal governance. In the programme the intention was announced to further improve the quality of public finances in the area of better regulation and the reduction of administrative burden. In this respect, the objective is to achieve a net reduction in the administrative burden by 25% compared to the benchmark of 1 March 2007. At the end of the third quarter of 2009, a net reduction of 11% had been realised.

On the expenditure side, as already mentioned above, the authorities are undertaking a fundamental budget review (FBR). The aim of the FBR is, according to the programme, to facilitate the decision-making at this crucial juncture by providing insight into structural reform and saving options and their possible consequences, without passing judgement on their relative desirability. The FBR is intended to lead to a wide range of

²³ During the period 1998-2002 the automatic stabilisers were somewhat mitigated, as part of windfalls or setbacks could be used for tax decreases or increases respectively.

²⁴ Where up until 2007 a cautious scenario was used, this has been changed in the use of a realistic scenario, thereby lowering the chance of budgetary windfalls.

²⁵ A new budgetary rule as presented in the November update of the stability programme, states that in case the 2% signal value is reached as a direct result from government operations to stabilise the financial markets, there will have to be no immediate action taken.

²⁶ Expenditure ceiling in the Netherlands exist of expenditure and non-tax revenue.

policy options, which are then to be presented. To ensure a fundamental approach, at least one scenario should lead to potential savings of € 30-40 billion. In total there are twenty working groups, consisting of high level servants and external experts, covering a wide range of policy fields. These include among others, energy and climate, housing, education, labour market and public administration.

On the revenue side, the authorities are preparing a separate study for revision of the tax system, which can be treated as a preliminary study for a broader subsequent analysis. The main aim of this study, according to the programme, is to establish a system that will generate stable revenues in the future with minimal disruption of the economy and the fairest possible distribution of the costs. The study will assess the variations in tax revenues, especially as a consequence of the economic downturn and its subsequent impact on tax revenues. More forward looking, the study will also analyse whether the current tax base (on labour, profit, consumption, housing, polluting behaviour, etc.) is sustainable in the future. The study will also look if a (further) simplification of different taxes can be achieved.

7. OVERALL ASSESSMENT

Taking into account risks attached to the budgetary targets discussed above, this section assesses the appropriateness of the fiscal strategy in relation to the Council Recommendations under Article 126(7) of 2 December with a view to correcting the excessive deficit and the budgetary objectives of the Stability and Growth Pact, against the background of the current economic situation, the debt and long-term sustainability position of the country, and the institutional features of its public finances.

With regard to 2010, the recommendations under Article 126(7) TFEU addressed to the Netherlands state that the Dutch authorities should implement the fiscal measures in 2010 as envisaged in the 2010 budget. The budget presented in the programme foresees a target of -6.1% of GDP for 2010, which is slightly better than the projection in the 2010 budget of -6.3% of GDP, which was sent to Parliament on 15 September 2009. The lower deficit target in the programme comes from an upward revision of the macro-economic scenario in the programme relative to that of the budget although the growth composition and the cautious revenue forecast (using a relatively low elasticity compared to the historical average) limit the positive impact on the budget and there is also a negative base effect of 0.1% of GDP. The programme does not contain any new policy measures vis-à-vis the budget. The risks to the budgetary target seem to be balanced, as risks from a favourable macro-economic scenario and from government interventions are offset by the programme's cautious revenue projections. Overall, the budgetary strategy for 2010 set out in the programme is consistent with the Council recommendations under Article 126(7) TFEU.

The recommendations under Article 126(7) TFEU also state that the present excessive deficit situation should be ended by 2013 and that the correction of the excessive deficit should take place in a medium-term framework. Specifically, to this end, the Dutch authorities should ensure an average annual fiscal effort of $\frac{3}{4}\%$ of GDP over the period 2011-2013. The structural balance presented in the programme, as recalculated by the Commission's services according to the commonly agreed methodology, is foreseen to come out at $-4\frac{3}{4}\%$ of GDP in 2010. For 2011 and 2012, the structural balance, based on the information in the programme, as recalculated by Commission services following the commonly agreed methodology, is expected to improve to -4% of GDP in 2011 and to $-3\frac{1}{2}\%$ of GDP in 2012. For the period 2011-2012, this would imply a total fiscal effort of $1\frac{1}{4}\%$, leading to an annual average effort of (narrowly) $\frac{3}{4}\%$. The projected change in the

structural balance in 2012 (½% of GDP) is not backed by additional measures, and can also not be explained by using standard elasticities. This suggests that additional consolidation measures are needed to ensure the required fiscal effort of ¾% of GDP over the period 2011-2013. Furthermore, there are risks to the budgetary projections of the programme. First, the macro-economic scenario presented for the period 2011-2012 seems favourable. Second, the government's operations to stabilise the financial markets will probably in large part remain in place over the entire programme period. This implies a significant budgetary risk for 2011 and 2012. On the other hand, the Dutch authorities are currently carrying out a fundamental budget review, which could serve for further consolidation starting in 2011. The size and nature of any additional consolidation measure coming from this review are, however, not yet clear.

With regard to the recommendations, 2013 is not presented in the programme. Although it was not obligatory to include 2013 in the programme, the current ending of the programme period in 2012 makes it impossible to determine the annual average fiscal effort for the period 2011-2013. Furthermore, it cannot be concluded that the strategy is already fully in place to ensure that the excessive deficit situation will be ended by 2013. The programme period ends with 2012 and presents a nominal government deficit of 4.5% of GDP, under a no-policy-change assumption. Given the budgetary adjustment path in the programme, an additional improvement of over 1½% of GDP is needed in order to ensure that the deficit is brought below the 3% of GDP threshold and the 2013 deadline is met. The programme includes a commitment to take additional policy measures in order to meet the 2013 deadline. Overall, from 2011 on, taking into account the risks mentioned above, the budgetary strategy may not be fully consistent with the Council recommendations under Article 126(7).

The debt ratio, which breached the 60% Treaty reference value in 2009, is expected to increase substantially over the programme horizon, according to the programme. Given the debt projections and the risks mentioned above, the current budgetary strategy is also not sufficient to bring the debt-to-GDP ratio back on a downward path.

Illustrative debt projections until 2020 show that the budgetary development envisaged in the programme is not enough to stabilise debt in the medium term. The '2009 scenario' that is based on the budgetary situation of 2009 shows that debt would be increasing to nearly 110% of GDP by 2020 if the policy measures described in the programme would not be implemented. The long-term budgetary impact of ageing is higher than the EU average, due to relatively high increases in both pension and long term care expenditure. Ensuring higher primary surpluses over the medium term and implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing high risks to the sustainability of public finances. The assessment does not yet take into account the proposed pension reform in the Netherlands, which, if adopted, would eventually raise the pension age by two years (from 65 to 67) by 2025. According to the programme, this would narrow the sustainability gap by 0.7% of GDP (to 7.8% of GDP) and would be considered as an important first step in improving sustainability.

* * *

ANNEX. COMPLIANCE WITH THE FORMAT AND CONTENT REQUIREMENTS FOR STABILITY AND CONVERGENCE PROGRAMMES

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 6 (quality of public finances), the description of expenditure and revenue developments is rather thin and could have benefitted from a more comprehensive overview of all planned measures, including those not directly related to the economic and financial crisis.

(ii) Data requirements

All compulsory data specified in the standard tables in Annex 2 of the code of conduct 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 January 2010 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) Separate chapter on progress made in the correction of the excessive deficit

In its recommendations under Article 126(7) of 30 November 2009 with a view to bring the excessive deficit situation to an end, the Council also invited the Netherlands to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. The Netherlands partly complied with this recommendation.

(iv) Other information requirements

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

* * *

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

The SCP...	Yes	No	Comments
<i>a. Involvement of parliament</i>			
... mentions status vis-à-vis national parliament.	X		Sent in parallel with transmission to EU
... indicates whether Council opinion on previous programme has been presented to national parliament.	X		
<i>b. Economic outlook</i>			
... (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 .	X		
... bears out possible upside/downside risks to economic outlook.	X		
... analyses outlook for sectoral balances and, especially for	X		

The SCP...	Yes	No	Comments
countries with high external deficit, external balance.			
<i>c. Monetary/exchange rate policy</i>			
... (CP only) presents medium-term monetary policy objectives and their relationship to price and exchange rate stability.			Not applicable
<i>d. Budgetary strategy</i>			
... presents budgetary targets for general government balance in relation to MTO and projected path for debt ratio.	X		Yes, no policy change assumption used for 2012
... (in case new government has taken office) shows continuity with respect to budgetary targets endorsed by Council.			Not applicable
... (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).	X		
... backs budgetary targets by indication of broad measures necessary to achieve them and analyses their quantitative effects on balance.	X		Information lacks specificity; for outer years no measures are specified
... specifies state of implementation of measures.	X		
<i>e. "Major structural reforms"</i>			
... (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.	X		
... includes quantitative cost-benefit analysis of short-term costs and long-term benefits of reforms.			Not applicable
<i>f. Sensitivity analysis</i>			
... 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
<i>g. Broad economic policy guidelines</i>			
... provides information on consistency with broad economic policy guidelines of budgetary objectives and measures to achieve them.	X		
<i>h. Quality of public finances</i>			
... describes measures to improve quality of public finances, both revenue and expenditure sides.	X		
<i>i. Long-term sustainability</i>			
... outlines strategies to ensure sustainability.	X		
... includes common budgetary projections by the AWG and all necessary additional information (esp. new relevant information).		X	
<i>j. Other information (optional)</i>			
... includes information on implementation of existing national budgetary rules and on other institutional features of public finances.	X		
<p>Notes: SCP = stability/convergence programme; CP = convergence programme ¹To 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.</p> <p><i>Source:</i> Commission services</p>			

Tables from Annex 2 of the code of conduct

Table 1a. Macroeconomic prospects

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	595.9	2.0	-4	1.5	2	2
2. Nominal GDP	B1*g	595.9	4.8	-3¼	1½	3	3
Components of real GDP							
3. Private consumption expenditure	P.3	272.5	1.3	-2½	¼	1.5	1.5
4. Government consumption expenditure	P.3	151.8	2.5	2¼	¾	¼	-½
5. Gross fixed capital formation	P.51	121.7	4.9	-11¾	-4	6	6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	0.2	0.3	-½	1	0	0
7. Exports of goods and services	P.6	457.4	2.7	-8¾	4¾	6.5	6
8. Imports of goods and services	P.7	407.6	3.7	-9¼	3½	5	5
Contributions to real GDP growth							
9. Final domestic demand		-	2.1	-3	-¾	1¼	1¼
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.3	-½	1	0	0
11. External balance of goods and services	B.11	-	-0.4	-½	1¼	¾	¾

Table 1b. Price developments

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		100	2.7	¼	0	1	1
2. Private consumption deflator		100	2.1	0	1	1	1
3. HICP¹		100	2.2	1	1	1	1
4. Public consumption deflator		100	3.3	2¾	1½	1	1
5. Investment deflator		100	2.1	1¾	¾	1	1
6. Export price deflator (goods and services)		100	4.7	-5½	-¼	1	1
7. Import price deflator (goods and services)		100	4.5	-5	1¼	1	1

¹ Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons¹		8734	2.4	-¼	-1½	½	½
2. Employment, hours worked ²		12.1	1.2	-1½	-2¼	½	½
3. Unemployment rate (%)³		304 (x thousand persons)	3.9	5	6½	6½	6½
4. Labour productivity, persons⁴		60.2	2.4	-3½	3¼	1½	1½
5. Labour productivity, hours worked ⁵		44	3.6	-2¼	3¾	1½	1½
6. Compensation of employees	D.1	295.1	5.2	1¾	-¼	2½	2½
7. Compensation per employee		49.2	3.8	2¾	2¼	2	2

¹Occupied population, domestic concept national accounts definition.

²National accounts definition.

³Harmonised definition, Eurostat; levels.

⁴Real GDP per person employed.

⁵Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	2008	2009	2010	2011	2012
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	4.2	4½	5¾	6¼	6¼
<i>of which :</i>						
- Balance on goods and services		8.3	7½	7¾	8	8
- Balance of primary incomes and transfers		-2.6	-1½	-¼	-¼	-¼
- Capital account		-1.5	-1¼	-1¾	-1½	-1½
2. Net lending/borrowing of the private sector	B.9	3.5	9¼	11¾	11¼	10¾
3. Net lending/borrowing of general government	EDP B.9	0.7	-4.9	-6.1	-5.0	-4.5
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 2. General government budgetary prospects

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	<i>n.a.</i>	0.7	-4.9	-6.1	-5.0	-4.5
2. Central government	S.1311	<i>n.a.</i>	0.5	-2.9	-4.4	-4.0	-3.3
3. State government	S.1312	<i>n.a.</i>	0.5	-2.9	-4.4	-4.0	-3.3
4. Local government	S.1313	<i>n.a.</i>	-0.4	-0.6	-0.7	-0.6	-0.4
5. Social security funds	S.1314	<i>n.a.</i>	0.6	-1.4	-1.0	-0.4	-0.9
General government (S13)							
6. Total revenue	TR	<i>n.a.</i>	45.6	44.4	44.3	44.9	45.5
7. Total expenditure	TE ¹	<i>n.a.</i>	44.9	49.3	50.4	49.9	50.0
8. Net lending/borrowing	EDP B.9	<i>n.a.</i>	0.7	-4.9	-6.1	-5.0	-4.5
9. Interest expenditure	EDP D.41	<i>n.a.</i>	2.1	2.4	2.4	2.4	2.5
10. Primary balance²		<i>n.a.</i>	2.8	-2.5	-3.7	-2.6	-2.0
11. One-off and other temporary measures³		<i>n.a.</i>	-0.2	0.4	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		<i>n.a.</i>	24.1	24.2	23.4	23.6	23.9
12a. Taxes on production and imports	D.2	<i>n.a.</i>	12.1	11.9	11.7	11.8	11.9
12b. Current taxes on income, wealth, etc	D.5	<i>n.a.</i>	11.6	12.0	11.4	11.5	11.7
12c. Capital taxes	D.91	<i>n.a.</i>	0.3	0.3	0.3	0.3	0.3
13. Social contributions	D.61	<i>n.a.</i>	15.2	14.2	15.2	15.6	15.7
14. Property income	D.4	<i>n.a.</i>	3.4	2.9	2.5	2.5	2.7
15. Other⁴		<i>n.a.</i>	2.9	3.1	3.2	3.2	3.2
16=6. Total revenue	TR	<i>n.a.</i>	45.6	44.4	44.3	44.9	45.5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)⁵		<i>n.a.</i>	39.1	38.1	38.3	38.7	39.0
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	<i>n.a.</i>	16.5	17.8	17.8	17.5	17.2
17a. Compensation of employees	D.1	<i>n.a.</i>	9.1	9.9	9.9	9.7	9.5
17b. Intermediate consumption	P.2	<i>n.a.</i>	7.4	8.0	7.9	7.8	7.7
18. Social payments (18=18a+18b)		<i>n.a.</i>	20.2	22.3	22.9	22.4	22.0
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	<i>n.a.</i>	9.8	10.9	10.9	10.6	10.5
18b. Social transfers other than in kind	D.62	<i>n.a.</i>	10.4	11.5	12.0	11.8	11.5
19=9. Interest expenditure	EDP D.41	<i>n.a.</i>	2.1	2.4	2.4	2.4	2.5
20. Subsidies	D.3	<i>n.a.</i>	1.2	1.4	1.4	1.4	1.4
21. Gross fixed capital formation	P.51	<i>n.a.</i>	3.5	3.7	3.8	4.1	4.4
22. Other⁶		<i>n.a.</i>	1.3	1.4	2.0	2.2	2.4
23=7. Total expenditure	TE ¹	<i>n.a.</i>	44.9	49.3	50.4	49.9	50.0
p.m.: Government consumption (nominal)	P.3	<i>n.a.</i>	25.5	27.8	27.9	27.0	26.0

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

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

³A plus sign means deficit-reducing one-off measures.

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

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

⁶D.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	2007	2008	2012
1. General public services	1	10.4	10.6	10.8
2. Defence	2	1.2	1.1	1.2
3. Public order and safety	3	1.7	1.7	1.8
4. Economic affairs	4	3.4	3.7	4.7
5. Environmental protection	5	0.8	0.8	0.9
6. Housing and community amenities	6	0.9	0.9	1.3
7. Health	7	8.8	8.7	10.2
8. Recreation, culture and religion	8	1.3	1.3	1.8
9. Education	9	5.1	5.0	5.5
10. Social protection	10	10.8	11.1	11.8
11. Total expenditure (=item 7=23 in Table 2)	TE ¹	44.4	44.9	50.0

¹Adjusted 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	2008	2009	2010	2011	2012
1. Gross debt¹		58.2	62.3	67.2	69.6	72.5
2. Change in gross debt ratio		12.7	4.1	5.0	2.3	2.9
Contributions to changes in gross debt						
3. Primary balance²		2.8	-2.5	-3.7	-2.6	-2.0
4. Interest expenditure³	EDP D.41	2.1	2.4	2.4	2.4	2.5
5. Stock-flow adjustment		13.4	-0.8	-1.1	-2.7	-1.6
<i>of which:</i>						
- Differences between cash and accruals ⁴		0.3	0.5	0.0	-0.9	0.1
- Net accumulation of financial assets ⁵		14.1	-3.3	-0.3	0.3	0.3
<i>of which:</i>						
- <i>privatisation proceeds</i>		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other ⁶		-1.0	2.0	-0.8	-2.0	-2.0
p.m.: Implicit interest rate on debt⁷		4.3	3.7	3.8	4.0	4.0
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.

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

²Cf. item 10 in Table 2.

³Cf. item 9 in Table 2.

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

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

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

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

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

Table 5. Cyclical developments

% of GDP	ESA Code	2008	2009	2010	2011	2012
1. Real GDP growth (%)		2.0	-4	1½	2	2
2. Net lending of general government	EDP B.9	0.7	-4.9	-6.1	-5.0	-4.5
3. Interest expenditure	EDP D.41	2.1	2.4	2.4	2.4	2.5
4. One-off and other temporary measures¹		-0.2	0.4	0.0	0.0	0.0
5. Potential GDP growth (%)		1.9	1.4	1.0	1.5	1.5
contributions:						
- labour		0.4	0.3	0.1	0.2	0.2
- capital		0.8	0.4	0.3	0.4	0.4
- total factor productivity		0.7	0.7	0.7	0.8	0.8
6. Output gap		2.3	-3.2	-2.7	-2.2	-1.6
7. Cyclical budgetary component		1.3	-1.8	-1.5	-1.2	-0.9
8. Cyclically-adjusted balance (2 - 7)		-0.6	-3.1	-4.6	-3.8	-3.6
9. Cyclically-adjusted primary balance (8 + 3)		-2.7	-5.5	-7.0	-6.2	-6.1
10. Structural balance (8 - 4)		-0.4	-3.5	-4.6	-3.8	-3.6

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

Table 6. Divergence from previous update

	ESA Code	2008	2009	2010	2011	2012
Real GDP growth (%)						
Previous update		2.25	1.25	1.75	1.75	n.a.
Current update		2.0	-4.0	1.5	2.0	2.0
Difference		-0.25	-5.25	-0.25	0.25	n.a.
General government net lending (% of GDP)	EDP B.9					
Previous update		1.2	1.2	0.8	1.1	n.a.
Current update		0.7	-4.9	-6.1	-5.0	-4.5
Difference		-0.5	-6.1	-6.9	-6.1	n.a.
General government gross debt (% of GDP)						
Previous update		42.1	39.6	38.0	36.2	n.a.
Current update		58.2	62.2	67.4	69.6	72.5
Difference		16.1	22.6	29.4	33.4	n.a.

Table 7. Long-term sustainability of public finances

% of GDP	2000	2005	2010	2020	2030	2050
Total expenditure	n.a.	44.8	44.8	47.7	52.6	64.4
Of which: age-related expenditures	n.a.	20.5	20.5	22.6	25.6	29.4
Pension expenditure	n.a.	6.9	6.5	7.8	9.3	10.3
Social security pension	n.a.	1.7	1.5	1.5	1.5	1.5
Old-age and early pensions	n.a.	4.6	4.5	5.9	7.6	8.7
Other pensions (disability, survivors)	n.a.	2.3	2.0	1.9	1.7	1.6
Occupational pensions (if in general government)	n.a.	4.6	5.0	6.7	9.0	11.0
Health care	n.a.	4.8	4.9	5.3	5.6	5.9
Long-term care (<i>this was earlier included in the health care</i>)	n.a.	3.4	3.5	4.1	5.4	7.7
Education expenditure	n.a.	4.8	4.6	4.4	4.4	4.5
Other age-related expenditures	n.a.	0	0	0	0	0
Interest expenditure	n.a.	2.4	2.4	3.2	5.1	13.1
Total revenue	n.a.	44.5	44.1	43.6	43.6	42.9
Of which: property income	n.a.	2.3	1.9	1.4	1.4	0.7
<i>Of which</i> : 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.	145.0	167.0	209.0	255.0	298.0
<i>Of which</i> : 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	1.9	1.5	1.2	1.5
Participation rate males (aged 20-64)	n.a.	84.0	83.9	82.6	82.1	82.5
Participation rates females (aged 20-64)	n.a.	70.1	73.6	76.3	77.2	78.2
Total participation rates (aged 20-64)	n.a.	77.1	78.8	79.5	79.7	80.4
Unemployment rate	n.a.	3.5	3.0	3.0	3.0	3.0
Population aged 65+ over total population	n.a.	14.0	15.3	19.8	24.1	26.7

Table 8. Basic assumptions

	2008	2009	2010	2011	2012
Short-term interest rate¹ (annual average)	4.6	1¼	1	1.5	2
Long-term interest rate (annual average)	4.3	3¾	3¾	4	4
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.47	1.40	1.49	1.49	1.49
Nominal effective exchange rate	3.7	-¾	2½	0	0
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)	2.8	-1	3½	4	4
World excluding EU, GDP growth	3.3	-¼	4¼	5	5
EU GDP growth	0.6	-4	1½	2	2
Growth of relevant foreign markets	1.6	-12¾	7½	6½	6½
World import volumes, excluding EU	2.5	-12¾	10	10	10
Oil prices (Brent, USD/barrel)	97	62	77	77	77

¹If necessary, purely technical assumptions.