EUROPEAN COMMISSION

Brussels,
SEC(2010) 284

Recommendation for a

COUNCIL OPINION

on the updated stability programme of the Netherlands, 2009-2012

EXPLANATORY MEMORANDUM

1. GENERAL BACKGROUND

The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The 2005 reform of the Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run.

Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], which is part of the Stability and Growth Pact, stipulates that each Member State has to submit, to the Council and the Commission, a stability or convergence programme and annual updates thereof. Member States that have already adopted the single currency submit (updated) stability programmes and Member States that have not yet adopted it submit (updated) convergence programmes.

In accordance with the Regulation, the Council delivered an opinion on first stability programme of the Netherlands on 25 November 1998 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the Regulation foresees that these are assessed by the Commission and examined by the Committee mentioned above and, following the same procedure as set out above, the updated programmes may be examined by the Council.

2. BACKGROUND FOR THE ASSESSMENT OF THE UPDATED PROGRAMME

The Commission has examined the most recent update of the stability programme of the Netherlands, submitted on 29 January 2010, and has adopted a recommendation for a Council Opinion on it.

In order to set the scene against which the budgetary strategy in the updated stability programme is assessed, the following paragraphs summarise:

(1) the Commission Communication of 26 November 2008 ("A European Economic Recovery Plan");

(2) the conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy";

(3) the country's position under the corrective arm of the Stability and Growth Pact (excessive deficit procedure);

(4) the most recent assessment of the country's position under the preventive arm of the Stability and Growth Pact (summary of the Council Opinion on the previous update of the stability programme).

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[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text are available at: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

2.1. The Commission Communication of 26 November 2008 ("A European Economic Recovery Plan")

In view of the unprecedented scale of the global crisis that hit financial markets and the world economy in 2008-2009, the European Commission called for a European Economic Recovery Plan (EERP)[2]. The plan proposed a co-ordinated counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the economy consisting of (i) an immediate budgetary impulse amounting to € 200 bn. (1.5% of EU GDP), made up of a budgetary expansion by Member States of € 170 bn. (around 1.2% of EU GDP) and EU funding in support of immediate actions of the order of € 30 bn. (around 0.3 % of EU GDP); and (ii) a number of priority actions grounded in the Lisbon Strategy and designed to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth. The plan called for the fiscal stimulus to be differentiated across Member States in accordance with their positions in terms of sustainability (or room for manoeuvre) of government finances and competitive positions. In particular, for Member States with significant external and internal imbalances, budgetary policy should essentially aim at correcting such imbalances. The plan was agreed by the European Council on 11 December 2008.

2.2. The conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy"

Following the halt of the sharp decline in economic activity and first signs of a recovery from the crisis, the stabilisation of financial markets and the improvement in confidence, the Council concluded on 20 October 2009 that, while in view of the fragility of the recovery it was not yet time to withdraw the support governments provided to the economy and the financial sector, preparing a coordinated strategy for exiting from the broad-based policies of stimulus was needed. Such a strategy should strike a balance between stabilisation and sustainability concerns, take into account the interaction between the different policy instruments, as well as the discussion at global level. Early design and communication of such a strategy would contribute to underpinning confidence in medium-term policies and anchor expectations. Beyond the withdrawal of the stimulus measures of the European Economic Recovery Plan, substantial fiscal consolidation was required in order to halt and eventually reverse the increase in debt and restore sound fiscal positions. Increasing the efficiency and effectiveness of public finances and the intensification of structural reform were desirable even in the short term as they would contribute to fostering potential output growth and debt reductions. The Council agreed on the following principles of the fiscal exit strategy: (i) the strategy should be coordinated across countries in the framework of a consistent implementation of the Stability and Growth Pact; (ii) taking country-specific circumstances into account, timely withdrawal of fiscal stimulus was needed; provided that the Commission forecasts continued to indicate that the recovery was strengthening and becoming self-sustaining, fiscal consolidation in all EU Member States should start in 2011 at the latest; (iii) in view of the challenges, the pace of consolidation should be ambitious, in most countries going well beyond the benchmark of 0.5% of GDP per annum in structural terms; and (iv) important flanking policies to the fiscal exit would include strengthened national budgetary frameworks for underpinning the credibility of consolidation strategies and measures to support long-term fiscal sustainability; in addition, structural reform efforts should be strengthened to enhance productivity and to support long-term investment. The Council

[2] Communication from the Commission to the European Council of 26 November 2008.

agreed that these elements should be reflected in the stability and convergence programmes, to be transmitted by Member States to the Commission by the end of January 2010.

2.3. The excessive deficit procedure 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 ¾ % 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 necessary measures 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 report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes prepared between 2010 and 2013.

2.4. The assessment in the Council Opinion on the previous update

In its opinion of 10 March 2009, the Council summarised its assessment of the previous update of the stability programme, covering the period 2007-2011, as follows. The Council considers “that the Netherlands has a sound starting budgetary position. However, due to the projected sharp economic downturn, the government balance will again enter negative territory, after several years in surplus. The government gross debt ratio increased significantly, as a result of measures taken to support the financial sector. There are important downward risks to the budgetary targets in the programme from 2009 onwards, largely due to the underlying markedly favourable economic scenario, which is already evidenced by recent data.” In view of this assessment, the Council invited the Netherlands to: “implement the 2009 fiscal policy as planned in line with the EERP and within the framework of the SGP, to limit the risk of a substantial further deterioration of the fiscal balance in 2010 relative to the most recent projections, and subsequently to move towards its medium term objective starting in 2011”.

Recommendation for a

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[3], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On [22 April 2010] the Council examined the updated stability programme of the Netherlands, which covers the period 2009 to 2012.

(2) In 2009, economic activity experienced a severe contraction of 4%. The fall in world trade hit the Dutch economy relatively hard, resulting in a negative contribution of net exports to growth. Domestic demand also put a drag on growth throughout the year as private consumption decreased due to important negative wealth and confidence effects, and investment suffered from decreasing demand, lower profitability and tightening credit conditions. Government consumption was the only demand component supporting economic activity, mainly due to the 1% of GDP stimulus package implemented in line with the EERP. For 2010, GDP growth is expected to be positive again, most likely driven by net exports on the back of the recovery in world trade. Private consumption is set to remain subdued, as real disposable income is negatively affected by lower wage growth and increasing unemployment and investment is expected to suffer from the low capacity utilisation rate, decreased profitability and still difficult credit conditions. The budgetary position eroded very quickly in 2009 from a surplus of 0.7% of GDP in 2008 to a deficit of 4.9% of GDP as a result of the recovery measures taken by the government in response to the economic crisis, the full working of the automatic stabilisers, and decreasing gas revenues. For 2010, a further deterioration is foreseen. The 2009 budget deficit in excess of the 3% of GDP reference value triggered an excessive deficit procedure. In this context, the Council issued recommendations to the Netherlands in December 2009, setting 2013 as the deadline for correcting the

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3 OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

excessive deficit. Bringing the deficit below 3% of GDP by that date will be one of the main policy challenges for the Netherlands. Other challenges include addressing the long-term sustainability of public finances, the continued strengthening of confidence in the financial sector, and ensuring access to finance for the corporate sector.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, growth in potential output will resume from a lower starting point. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability and increasing structural unemployment. Moreover, the impact of the economic crisis will coincide with the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of structural reforms with the aim of supporting potential growth. In particular, for the Netherlands it is important to undertake reforms in the area of the labour market, especially by developing further measures, including fostering labour market transitions to improve the participation of women, older workers and disadvantaged groups with a view to raising overall hours worked and in the area of R&D, by continuing to create favourable R&D incentives.

(4) The macroeconomic scenario underlying the programme envisages that after the 4% contraction in 2009, real GDP will grow again by 1½% in 2010 before further recovering to an average rate of 2% over the rest of the programme period. Assessed against currently available information[4], this scenario appears to be based on favourable growth assumptions for 2010 and 2011 and plausible assumptions for 2012. The programme's projections for inflation appear realistic for 2010 and somewhat on the low side for 2011 and 2012. The assumption in the programme that the recovery of economic growth will be mainly driven by net exports is plausible, whereas the projected growth contributions from private consumption and investment seem to be favourable. With regard to the labour market, both employment growth and unemployment developments appear somewhat favourable over the programme period.

(5) According to the programme the general government deficit deteriorated strongly from a surplus of 0.7% of GDP in 2008 to a deficit of 4.9% of GDP in 2009, reflecting to a large extent the impact of the crisis on government finances, but was also brought about by stimulus measures amounting to 1% of GDP which the government adopted in line with the European Economic Recovery Plan (EERP). Fiscal policy is planned to remain supportive in 2010 before turning restrictive in the outer years of the programme. In line with the exit strategy advocated by the Council, and with a view to correcting the excessive deficit by 2013 and returning to a sustainable public finance position, the expansionary fiscal stance in 2009 and 2010 needs to be followed by a significant fiscal tightening from 2011 on.

(6) The budgetary target for 2010 in the update of the programme is a deficit of 6.1% of GDP. The programme foresees the revenue ratio to decrease by 0.1% of GDP

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[4] The assessment notably takes into account the Commission services' autumn 2009 forecast, but also other information that has become available since then, including the Commission services' 2010 February interim forecast.

compared to 2009, whereas the expenditure ratio is expected to rise by 1.1% of GDP. The programme's budgetary projection for 2010 is 0.2% of GDP better compared to the 2010 budget target and is, taken at face value, in line with the Council recommendation under Article 126(7) of 2 December 2009. The more favourable macro-economic prospects underlying the programme are only partly translated into the budgetary outcome, mainly due to the concentration of growth in the tax-poor export-oriented sector and a 0.1% of GDP negative base effect from 2009. The 2010 structural balance, i.e. the cyclically adjusted balance net of one-off and other temporary measures recalculated according to the commonly agreed methodology, shows a deterioration from -3¾% of GDP in 2009 to -4¾% of GDP in 2010. The overall effect of discretionary measures in 2010 is negligible, as higher discretionary expenditure is matched by tax increases. The deterioration of the structural balance in 2010 that is nevertheless observed can partly be explained by higher interest expenditure and decreasing gas revenues but most importantly by various lagged effects, like increasing unemployment, which leads to higher expenditure and lower tax revenue than what would be suggested when using standard elasticities.

(7) The main goal of the programme's medium-term budgetary strategy is to bring the deficit below 3% of GDP by 2013. The consolidation should start in 2011 provided growth prospects are positive, according to the programme. At face value, this goal would be in line with the recommendation under Article 126(7) TFEU. Although the programme mentions the commitment to meet the 2013 deadline by taking additional measures, the size and nature of these measures are not specified. Furthermore, the programme horizon does not cover 2013. The programme shows the nominal budget deficit improving to 5.0% of GDP in 2011 (from 6.1% in the previous year) and 4.5% in 2012. The primary balance is expected to follow a similar pattern. The expected outcome for 2012 should be regarded as a technical outcome based on a no policy change assumption and not as a target. The programme's budgetary projections imply a required additional nominal improvement of the general government balance of more than 1½% of GDP in 2013 to bring the deficit below 3% of GDP. The (recalculated) structural balance 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. For 2011, the government budgetary strategy mainly consists in the (partial) withdrawal of the stimulus package amounting to approximately ½% of GDP and consolidation measures amounting to ¼% of GDP (EUR 1.8 billion). The revenue ratio is expected to increase on the basis of the improved macro-economic environment and the (partial) withdrawal of the stimulus package, whereas the expenditure ratio is expected to decrease due to the consolidation package, the improved macro-economic environment and the (partial) withdrawal of the stimulus package. For 2012, the programme shows an increase in the revenue ratio and a stabilising expenditure ratio based on a no policy change assumption. The programme confirms the commitment to the new medium-term budgetary objective (MTO), which is a budgetary position of -0.5% of GDP in structural terms. In view of the new methodology[5] and given the most recent projections and debt level, the

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5 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)

MTO reflects the objectives of the Pact. However, the programme does not envisage achieving it within the programme period.

(8) The budgetary projections in the programme for 2010 appear plausible, but budgetary outcomes could turn out worse than projected for the year 2011 and beyond. In particular, the government's operations to stabilise the financial markets will probably in large part remain in place over the entire programme period and could have a negative impact on the budgetary targets. Although for 2010, the favourable macro-economic scenario seems more than compensated by relatively cautious revenue projections in the programme which might even leave some room for over-performing the target, this does not appear to be the case for the rest of the programme period. Furthermore, not all savings of the consolidation measures may be realised from 2011 onwards. In addition, the announced policy of wage moderation may not (fully) materialise. Finally, the social benefits might turn out higher than expected in the programme in view of the somewhat optimistic unemployment projections. The programme also does not fully explain the change in the revenue and expenditure ratios in 2012, when the programme projects a ½% of GDP improvement of the balance without any measures. The projection is essentially based on favourable macroeconomic and elasticity assumptions. However, for both 2011 and 2012 it should be noted that the Dutch authorities are currently carrying out a fundamental budget review, which could serve as a basis for additional consolidation measures and should help strengthen the average annual fiscal effort from 2011 onwards as recommended and could therefore lead to a better-than-expected budgetary outcome, although the size and nature of any of these additional consolidation measures are not yet clear. The track record of the Dutch budgetary consolidation is relatively good and does not represent an additional risk in the current juncture.

(9) The government gross debt-to-GDP ratio was above the Treaty reference value in 2009 and is on an increasing trend over the whole programme period. It is estimated at 62.3% in 2009, up from 58.2% in the year before. The increase in the debt ratio came in large part from the budget deficit and the decline in GDP growth, although it was mitigated by a significant positive stock-flow adjustment reflecting the repayment of government financial sector support. The debt ratio is projected to increase by a further 10% of GDP over the programme period to 72.5% in 2012, mainly driven by continued high government deficits. There are considerable risks to the general government gross debt level, stemming, first, from the risk of higher-than-targeted deficits, particularly in 2011, and, second and more importantly, from sizeable guarantees to the financial sector, which currently amount to almost 14% of GDP. If the guarantees were activated, they would further increase the debt ratio. On the other hand, (early) repayments of government support by financial institutions could substantially lower the debt ratio.

(10) 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

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.

contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report[6] as high. The proposed increase in the pension age by two years (from 65 to 67 years) by 2025 is estimated to narrow the sustainability gap slightly and, if adopted, would be an important first step in improving the sustainability of public finances. 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.

(11) The trend-based budgetary framework introduced in 1994 has been generally considered to be efficient and effective[7]. Most important of this framework are the multi-annual expenditure ceilings and the role of independent organisations, particularly the CPB[8]. The framework has a four-year horizon and is based on a macro economic scenario, which is provided for by the National Bureau for Economic Policy Analysis (CPB)[9] and ensures the objectivity and independence of these projections. A budgetary target is set for the four-year horizon, which is based on the fiscal challenges related to ageing and the requirements of the Stability and Growth Pact. From these budgetary targets, expenditure ceilings are derived, which form the corner stone of the fiscal framework. In practice, the expenditure ceilings have been well respected. In March 2009, the government decided to remove the cyclically sensitive unemployment benefits 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. 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.

(12) In terms of the quality of public finances, the Netherlands can be considered a relative good performer in some areas. 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. With respect to the administrative burden, the objective set in the programme is to achieve a net reduction of 25% in 2011 compared to 2007. The authorities are currently

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6 In the Council conclusions from 10 November 2009 on sustainability of public finances "the Council calls on Member States to focus attention to sustainability-oriented strategies in their upcoming stability and convergence programmes" and further "invites the Commission, together with the Economic Policy Committee and the Economic and Financial Committee, to further develop methodologies for assessing the long-term sustainability of public finances in time for the next Sustainability report", which is foreseen in 2012.

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

8 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.

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

undertaking a fundamental budget review (FBR), which is mainly focused on the expenditure side and aims at facilitating the decision-making process of structural reforms and consolidation measures. On the revenue side, the authorities are preparing a separate study for revision of the tax system, which aims at establishing a tax system that will generate stable revenues in the future with minimal disruption of the economy and the fairest possible distribution of the costs. This review could further enhance the quality of public finances in the medium to long term.

(13) Overall, the budgetary strategy for 2010 set out in the programme is consistent with the Council recommendations under Article 126(7). 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), although 2013 is not included in the programme horizon. In particular, for 2010, the programme's budgetary projections are slightly better than those in the 2010 budget, partly reflecting the better macro-economic scenario, and are subject to balanced risks. For the 2011-2012 period, the programme envisages a narrow average annual fiscal effort of ¾% of GDP, subject to the risks mentioned above. Regarding 2011, the programme's budgetary projections are underpinned by specified consolidation measures. On the other hand, the projected change in the structural balance in 2012 (½% of GDP) is not backed by additional measures, but can also not be explained by using standard elasticities. This suggests that additional consolidation measures are needed to ensure the required annual average fiscal effort of ¾% of GDP over the period 2011-2013 as recommended by the Council, also taking into account the fact that 2013 is not covered in the programme. The programme's nominal government deficit of 4.5% of GDP in 2012, derived under a no-policy-change assumption rather than representing a target, indicates that an additional improvement of at least 1½% of GDP is needed to meet the 2013 deadline. Given debt projections presented in the programme 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. Although in the programme the government expresses its commitment to take additional policy measures to bring the deficit below the 3% of GDP reference value by 2013, the programme does not contain indications how this would be achieved.

(14) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most of the optional data. In its recommendations under Article 126(7) of 2 December 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. In particular, the programme does not cover 2013, the final year of the correction period.

The overall conclusion is that the Netherlands is hit hard by the crisis, resulting in a sharp deterioration of the budget balance in 2009, which turned from a surplus of 0.7% of GDP in 2008 to a deficit of 4.9% of GDP, triggering the excessive deficit procedure. For 2010, a further deterioration is expected, most importantly due to various lagged effects, like increasing unemployment. The subsequent withdrawal of the fiscal stimulus and a consolidation package should improve the budget balance in 2011. For 2012, the improvement in the budget comes from cyclical conditions following the no-policy change scenario. The debt ratio, which breached the 60% Treaty reference value in 2009, is expected to increase substantially over the programme horizon. The adjustment path presented in the programme is subject to downside risks and would benefit from a strengthened consolidation beyond 2011. The main risks are related to the favourable macroeconomic assumptions combined with an annual fiscal effort that is a narrow ¾% of GDP, which was recommended by the Council. The programme includes a commitment to take additional policy measures in order to meet the 2013 deadline. However, as 2013 is not covered by the programme, it is not possible to fully assess the budgetary strategy. Therefore, more information on the broad strategy underpinning the correction of the excessive deficit, including in particular 2013, would be welcome. 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 recently proposed pension reform would be considered as an important first step, if adopted.

In view of the above assessment and also in the light of the recommendation under Article 126 TFEU of 2 December 2009, the Netherlands is invited to:

(i) in the context of the fundamental budget review, identify the measures supporting the consolidation from 2011 and especially in the following years, further strengthen the consolidation effort to secure the required average annual fiscal effort to bring the deficit below 3% of GDP by 2013, and to use windfalls related to an improvement of the macro-economic and fiscal outlook to accelerate the deficit reduction and the decline of the gross debt ratio back towards the reference value throughout the programme period;

(ii) further improve the long-term sustainability of public finances by implementing structural reforms that curb the projected increase in age-related expenditure.

Comparison of key macro-economic 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:

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

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

[3] Cyclically-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