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COVER NOTE

from:	Mr Johan Barnard, Financial Counsellor, Permanent Representation of the Netherlands to the European Union
date of receipt:	27 May 2013
to:	Mr Carsten PILLATH, Director-General, Council of the European Union
Subject:	Stability Programme of the Netherlands 2013

I have the honour to enclose the Stability Programme of the Netherlands.

(Complimentary close)

(s.) Johan Barnard

Encl.:

Stability Programme of the Netherlands

April 2013

Consistency with the National Reform Programme

Within the framework of the streamlining of the European semester process, the National Reform Programme and the Stability Programme are both submitted to the European Commission at the end of April. With respect to the content there is some overlap between the two documents, for example regarding the macro-economic outlook. The Stability Programme focuses on macro-economic developments, budgetary developments and budgetary policies, whereas the National Reform Programme contains policy measures related to the priorities of the Europe 2020 strategy. Where relevant, the two documents include cross-references.

Contents

Chapter 1 Implementation of the Excessive Deficit Procedure recommendations in the Netherlands

The Coalition Agreement of October 2012 includes the expectation that the Netherlands would have an EMU deficit of less than 3% in 2013. The fact that economic circumstances have again worsened considerably since then has put pressure on public finances.

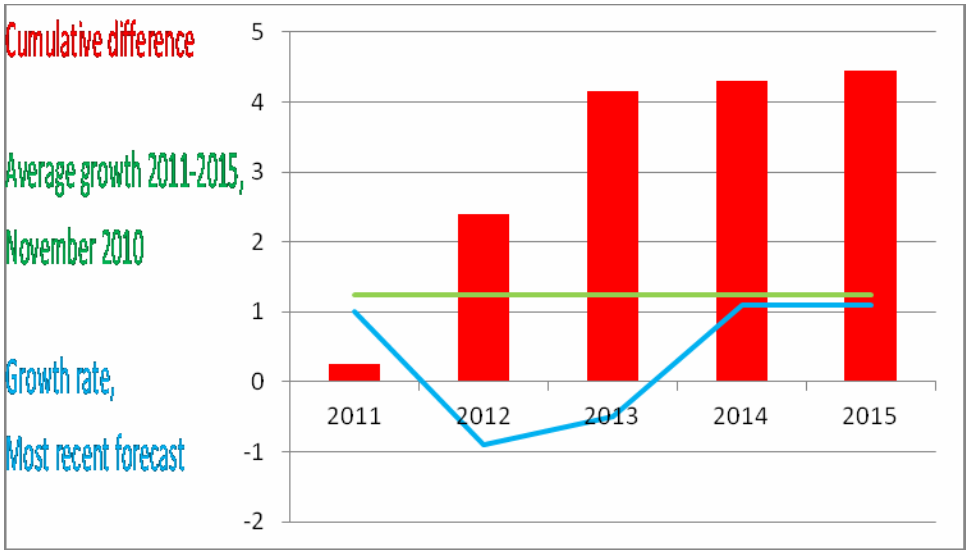
Introduction

This chapter provides a broad overview of the worsening economic and budgetary developments and of the prospects for the period 2010-1014. This is followed by an assessment of the recommendations made to the Netherlands in connection with the excessive deficit procedure.

Development of the economy 2010-2014

The excessive deficit procedure for the Netherlands was initiated in December 2009, after which the Rutte I government was formed in November 2010. At the time, the Netherlands Bureau for Economic Policy Analysis [Centraal Planbureau] (CPB) estimated average growth to be 1.25% for the period between 2011 and 2015. In the meantime the economic growth achieved, and the outlook for the Netherlands, have substantially worsened. The cumulative loss of growth in 2013 is more than 4% (see figure 1.1)[1]. The lower rate of growth is accompanied by rapidly rising levels of unemployment (the economic prospects are discussed in more detail in Chapter 3).

Figure 1.1 Worsened growth performance and prospects (% GDP)



[1] The figures for 2013 and 2014 are based on the latest economic projection by the CPB (Central Economic Plan (CEP), March 2013). Figures for 2015 are based on the medium-term projection of the CPB dating from November 2012 (Coalition Agreement), because the CEP does not offer a projection for this period.

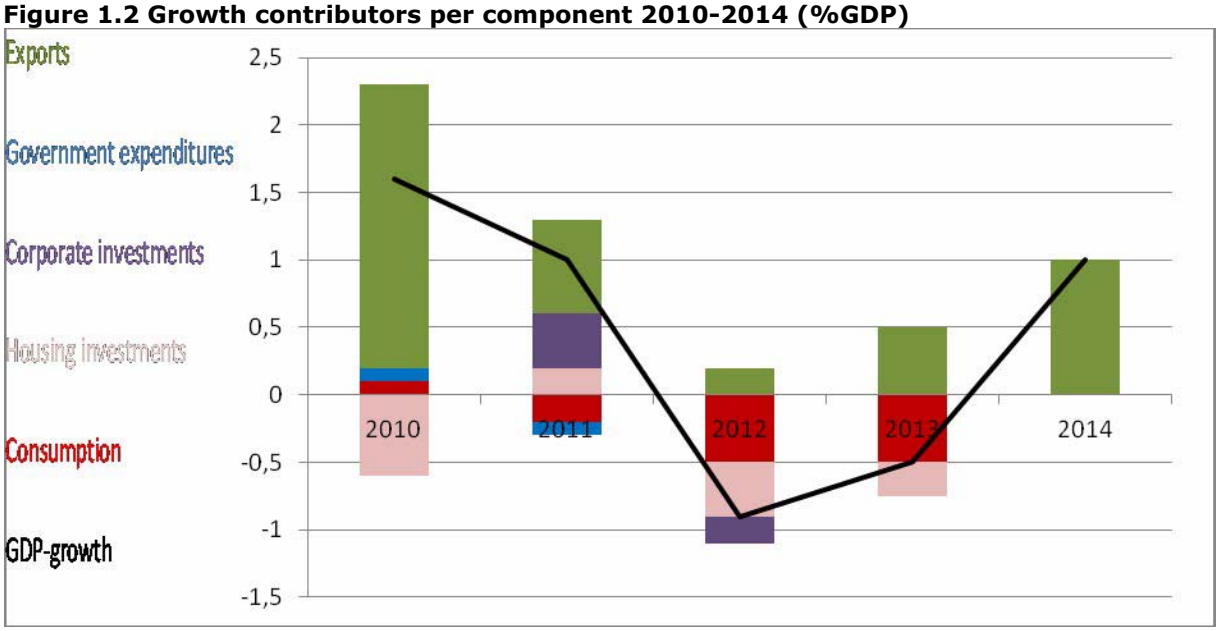
The slowdown in 2012 and 2013 has been caused by domestic spending. The only positive contribution to growth is exports (Figure 1.2). Private consumption has, for years, had a negative effect on GDP growth. The low levels of corporate investment and housing investments have also contributed to the downturn. The expected GDP growth for 2014 of 1% is entirely due to increasing exports.

In 2009 and 2010 the government absorbed the initial consequences of the crisis, with the consequence being lower tax revenues, extra expenditure and a greater debt. The budget deficits in those years were 5.6 and 5.1 percent GDP respectively. No recovery growth occurred in the years after 2010. On the contrary, according to current expectations, the average volume of GDP will hardly grow at all in the years 2011-2013.

In 2013 national income is at the same level as in 2007. The necessary deleveraging by banks, companies and households is suppressing growth worldwide. This is in line with experiences from previous financial crises. The expectation is that the growth lost as a consequence of the crisis will not be recovered. Another contributing factor is that ageing is now a real issue, as a result of which the long-term potential growth will be lower than it used to be. A new reality is therefore upon us – regarding the position and growth of the economy - to which public finances will also have to adapt.

Measures for reducing the government deficits have unavoidably put pressure on short-term economic growth. However, the CPB figures show that the contribution of all government spending to growth during the years 2010-2014 has had a limited and, on balance, neutral effect. This is primarily due to the autonomous and continuing increase in care expenditure.

Figure 1.2 Growth contributors per component 2010-2014 (%GDP)



The excessive deficit procedure

Disappointing growth has had an effect on the EMU balance. The negative growth adjustments are leading to significant shortfalls on the income side of the budget while, on the expenditure side of the budget, the spending on unemployment benefits has increased faster than was previously estimated. The recent intervention to rescue SNS bank is having a negative impact on the EMU balance in 2013 and this nullified the one-off windfall from the spectrum auctions in 2013 (see Chapter 4).

The Coalition Agreement states that European budget agreements take precedence and that the government is keeping to the European budget agreements referred to in the Stability and Growth Pact (SGP)[2]. The government is, and continues to be, committed to this agreement. As far as 2013 is concerned and in response to the worsening economic situation the government is taking account of the current economic situation, the already substantial package for 2013 (a cumulative amount of 23 billion euros in 2013), the nationalisation of SNS Reaal (3.5 billion euros) which will have a detrimental effect on the EMU, and the limited set of instruments which is available to influence the budget of a current year. The budget rules will, of course, be applied for 2013 and any overruns will be redressed within the budget.

The government is fully committed to reducing the deficit structurally to less than 3% of GDP as from the beginning of 2014. Support from social partners (labour unions and employers' federations) is crucial if the budget is to be brought under control and the reforms in the Coalition Agreement implemented. That was the reason why the government entered into a dialogue with parliament and its social partners. A housing agreement was concluded with a number of opposition parties in mid-February (see paragraph 2.1). On 11 April the government made agreements with its social partners regarding all aspects of its labour market policy. These agreements have also been debated in Parliament.

The government and social partners share the view that restoring public finances will again be an important objective in 2014. At the moment, however, it is unclear whether extra measures are required in order to achieve this goal. For that reason the government has decided to phase the budget decision-making process. Additional measures will only be taken if the Macro-Economic Outlook by the CPB gives cause to do so, given the budget balance objective of -3% in 2014. At that point in time the 1 March package (see table 1.1) will be revived if and in so far as this turns out to be necessary at that juncture. In the run-up to the concluding decision-making for the 2014 budget the government is open to negotiations with political parties that share its ambition to bring the budget under control at a responsible pace. The government's commitment to realise the EMU objective is therefore as strong as ever and will, where necessary, be effectuated with additional measures.

[2] This is also referred to in our own budget rules (rule 5): European budget agreements take precedence. The government is complying with the European budget agreements as referred to in the Stability and Growth Pact. The most important of these are that the deficit may not exceed 3% GDP, that an improvement in the structural balance is realised until the medium-term objective (MTO) has been achieved, and that the debt develops in accordance with the set requirements.

By entering into the Social Agreement, the government and its social partners have created the necessary basis of support and confidence to allow the steadfast implementation of the Coalition Agreement. In this way public finances can be brought under control, a sound budget policy can be pursued and reforms can proceed. This is in the interest of the Netherlands. It guarantees excellent creditworthiness which, in turn, ensures that interest rates can stay low. In the long term, this creates room to lower costs and invest more in essential social provisions such as education, research, innovation and sustainability. What is more, a sound budget policy makes it easier to cope with any future crisis. It also ensures that costs are not passed on to future generations.

The government also reached agreement with employers' federations and labor unions (with the exception of Abvokabo FNV) regarding health care savings and reforms. The budgetary consequences of this agreement will be addressed within the health care's budget. As a consequence of the agreement, the planned revenue of the wage freeze in the health care sector, as presented in the 1 March package, is no longer current. Alternative spending measures will be prepared to reach savings of 1 billion euro. The government will use the period until the decision-making moment in August to take stock of the additional spending measures to be taken, so that there will be a package of measures before the 2014 budget memorandum that brings the deficit sustainably within the -3% limit. The government's commitment to realise the EMU objective is therefore as strong as ever and will, where necessary, be effectuated with additional measures.

The 1 March package with additional measures links up significantly with the budget indexation mechanisms. This concerns wages in the collective sector and the taxes percentage indexation. A zero line for the collective sector places work above income.

Table 1.1 The 1 March package, billion euros, - = improvement in EMU balance

Measure	**2014**
Wage freeze government	-1.0
Percentage indexation at 0	-1.1
Withholding revenue envelopes	-0.6
Purchasing power package	0.3
Employers' levy high incomes	-0.5
Investment package (including the accelerated construction of several roads and an extra contribution to the revolving energy efficiency fund).	0.5
Price adjustment	-0.7
Effect municipality/province fund	-0.2
Additional expenditure measures	-1.0
Total	**-4.3**

The actual EMU balance will be limited to a deficit of -3% in 2014 and the requested effort has been made with regard to improving the structural deficits for the period 2011-2013 by an average of ¾% GDP annually. The structural deficit improved in the years 2011-2013 by an average of 0.8% GDP per year. With an EMU balance of -3% in 2014 (i.e. the CPB forecast including the 1 March package) the structural balance improves further in 2014.

Chapter 2 Overall policy framework and objectives

The government is working to ensure sound public finances and to strengthen the economy in order to emerge stronger from the economic crisis. Therefore, in addition to budgetary measures the Netherlands is introducing growth-enhancing initiatives and is implementing structural reforms in essential areas of policy. Concluding the Social Agreement means there is also a basis of support for the steadfast implementation of these reforms.

Introduction

This chapter describes the structural reforms that the government is implementing as regards the housing market, the employment market, pensions and healthcare. It is followed by a short description of a number of other important measures that this government is taking in order to restore the budget position. The total package of measures resulting from the Coalition Agreement was sent to the European Commission as Annex B to the stability programme update in December 2012.

Housing market reforms

House purchasing market

In order to scale down private debts and allow the housing market to function more effectively, the following measures are being taken within the framework of the Coalition Agreement:

- A condition for being eligible for mortgage interest deduction in the case of new loans is that the mortgage is paid off on an annuity basis;
- The transfer tax is to be structurally lowered to 2%;
- The maximum deduction rate at which mortgage interest can be deducted in the context of new and existing mortgages is to be reduced to ultimately 38% in 28 annual steps of half a percentage point starting in 2014;
- These three measures are intended to reduce the budgetary loss of the mortgage interest deductibility structurally by around 40%, while also limiting the financial risks;
- The maximum loan-to-value ratio of mortgages is to be reduced in steps of one percentage point per year from 106% in 2012 to 100% as from 2018. This measure will also limit the financial risks.

In the supplementary housing agreement, with regard to which the government actively sought dialogue with Parliament, the contribution by the state to loans for first-time buyers is to be raised from € 20 million to € 50 million in 2013. This will enable the issuing of approximately 11,000 loans for first-time buyers[3].

[3]It has also been agreed that a second loan may be taken out in addition to a mortgage up to an amount equivalent to 50% of the value of the house and with a term of no more than 35 years. This second loan will not be tax-deductible.

Rental market

The Coalition Agreement also contains announcements regarding reforms to the rental market which will help improve the functioning of the housing market. These measures are detailed in the housing agreements in which the government and the three opposition parties have agreed to stimulate employment, encourage energy savings, assist first-time buyers and reduce subsidized housing for households with a higher income.

The most important measures contained in the supplementary housing agreement for the rental market are:

- An annual increase in rent by a maximum of 4% above inflation (rather than the 6.5% as referred to in the Coalition Agreement) for people with an income of more than € 43,000 per year. For people with incomes of between € 33,614 and € 43,000 the figure will be 2% above inflation (rather than the 2.5% referred to in the Coalition Agreement). In the case of incomes of up to € 33,614, rents will increase by 1.5% above inflation.
- The lessor levy which the housing corporations will pay amounts to € 50 million in 2013 and will increase to € 1.7 billion in 2017. According to the government the levy can, in the coming years, largely be paid from the revenues resulting from the rent increases. Housing corporations can also contribute by selling homes and working more efficiently.

Other measures

The housing agreement also included the following measures:

- A temporary reduction in VAT from 21% to 6% for building and renovation work carried out on existing buildings. This measure applies from March 2013 and for a period of 1 year.
- An investment fund worth € 150 million for energy-saving measures. This measure applies to lessors and home owners. The fund is to be supplemented with funds from the market so that it can increase by a multiple of four to € 600 million (excluding intensification 1 March package).
- People whose income drops after an income-dependent rental increase was imposed on them will be entitled to a rent reduction.
- Lessee privacy will be respected because lessees will not have to provide lessors with any income details. Instead the Tax and Customs Administration will inform lessors as to which income category the lessee falls into.
- In order to make life easier for the lowest income group, the rental subsidy budget is to be increased. This will take place from 2013 to 2017 inclusive in phases from € 45 million to € 135 million, € 225 million, € 315 million and € 420 million.
- An exception can be made to the income-dependent rent increases affecting handicapped people and the chronically ill. This prevents investments in alterations to homes being lost and voluntary aid being discouraged.

Labour market reforms

The government and its social partners have made joint agreements about a structural approach to the Dutch economy and labour market, with the goal being to give as many people as possible a fair chance to find work and become economically independent. This agreement is essential due to the poor economic situation the Netherlands is currently in. In the past, consultations with social partners helped the country get through during difficult times and the 'polder' consultation has helped to create socio-economic calm, stable wage development and a structurally strong economy. By rebuilding trust the government and its social partners want to encourage employment opportunities and structurally reinforce the economy.

In the context of the employment market in the 21st century people will continue to work and be healthy for longer until they retire and they will also change jobs more frequently. It is essential that employers, employees and the government facilitate this. It is against this background that the social partners want to take their share of the responsibility. The focus is on offering job security and on preventing unemployment by ensuring that the workforce is healthy and properly trained and by making sure that people can easily find another job if desired or necessary. In order to fulfil this responsibility, the government and the social partners have made agreements which affect the entire employment market policy. The measures that the government is taking are aimed partly at the short term but also include various measures to reinforce the economy in the long term.

- The law governing dismissals is to be modernised as of 2016. Depending on the reason for the dismissal, there will be a single dismissals procedure. In the case of dismissals for business economic reasons, or due to long-term incapacity for work, a procedure via the UWV [the body implementing employee insurance schemes] will apply. For (other) reasons relating to the person in question, and in the event of a disrupted employment relationship, the procedure will involve dissolution by a subdistrict court. This will eradicate the legal inequality inherent in the current system. Severance payments, which are sometimes very high currently, are to be replaced by a transition payment amounting to a third monthly salary per year of service over the first ten years of service and half a month per year of service over the subsequent years. This payment will not exceed € 75,000 or an annual salary if that is higher. The costs of, for example, training which have been incurred within the framework of dismissal and the search for any new job can be deducted from the transition allowance.
- During the years 2016-2019 the publicly financed maximum unemployment benefit term is gradually going to be shortened to 24 months. In their first ten years of employment, employees will accrue entitlements to one month’s unemployment benefit per year, and half a month’s benefit per year thereafter. After six months of unemployment benefit, all work will be regarded as suitable for the unemployed person. This currently applies after one year. The idea is to increase incentives for people receiving unemployment benefits.

- As of 2015, various measures relating to flexible work will apply, with the goal being a reduction in the long term and unwitting use of flexwork contracts. This will change the chain provision because contracts of employment for an indefinite period of time which follow each other within a period of six months (currently three) will be converted into a contract of employment for an indefinite period of time at the time of the fourth contract or after two years (currently three). In addition, the use of trial periods and non-competition clauses will be limited in the case of temporary contracts.
- As of 2015 it will no longer be possible to become eligible for provisions under the Sheltered Employment Act (WSW). People with a disability will then be able to obtain support from the Public Employment Service. They will then become eligible for one of the 30,000 protected jobs or for work with regular employers on the basis of a wage costs subsidy. Employers are set to guarantee 125,000 extra jobs for people with an employment disability.
- As of 2015 a disability under the Invalidity Insurance (Young Disabled Persons) Act (Wajong) will only be available to people who have absolutely no capacity to work in the long term. The current database of eligible individuals is to be revised. People who are able to work can approach their local authority for support in the context of reintegration and/or a benefit.
- In the short term, additional resources have been reserved to tackle youth unemployment and to help unemployed elderly people find work.
- In 2013 and 2014 sectors can count on financial support for initiatives to keep in work, via (intersectoral) mobility and training, those people who are liable to lose their jobs.

Pension reforms

The government is focusing its policy relating to the state pension (AOW) and the supplementary pensions on ensuring that these are safeguarded for younger generations. This means that the government is taking the necessary measures to ensure the affordability of the state pension and the supplementary pensions - given that the number of elderly people is rapidly growing and the working population is scarcely increasing:

- The state pension eligibility age is to be increased more rapidly. However, in the years between 2015 and 2018 the retirement age will rise three months a year (instead of two), and from 2018 to 2021 the retirement age will rise by four months a year (instead of three). This implies a retirement age of 66 in 2018 and 67 in 2021. Thereafter, the retirement age will be linked to life expectancy. In order to provide a bridging facility for people on low incomes who have been unable to prepare properly for the initial increase in the old age pension eligibility age on 1 January 2013, a state pension bridging provision is to been reduced. In response to the request by the social partners to extend this scheme, the government will extend the scope of the bridging scheme to include participants with an income of up to 200% of the statutory minimum wage (300% for couples).
- The build-up percentage within the Witteveen Framework, the statutory framework governing tax-advantageous pension-saving arrangements, is to be reduced (by 0.4% for average wage schemes). The social partners have indicated that they want to devise alternatives or supplements for this. The government is giving an opportunity to implement this up until 1 June 2013, with a maximum structural budgetary amount of up to € 250 million.

- The government is calling on its social partners to use the premium space created by the above-mentioned measures to lower pension premiums insofar as the financial position of the pension fund allows such. The result will be that households have less of an obligation to save for a supplementary pension and this role, in turn, lead to greater spending power.
- In the case of income exceeding 100,000 euros a year (three-times the average), it will no longer be possible to accrue pension in a tax-advantageous manner. In this way the fiscal subsidy on pension savings will be more accurate and efficient

Healthcare reforms

A major step is being taken towards a feasible growth path for care expenditure. All the actors in the care sector contribute to this: professionals, providers, insurers, the government and clients. The increase in care expenditure is to be reduced by more than 5 billion during this term of government.

The focus as regards curative care is on improving the effect of the system with long-term growth being reduced even further. Both insurers and providers run a greater risk, with the claims package being streamlined and with clients having to pay more themselves.

Long-term care is to be drastically reformed. Home care is to be transferred to a large extent to the local authorities while medical care is to be provided within the framework of the Health Insurance Act [Zorgverzekeringswet]. This will ensure optimal use of the synergies between domains. The claims package is to be brought more in line with neighbouring countries and will focus on the neediest.

Other measures

In addition to the above-mentioned reforms the Coalition Agreement includes even more measures for restoring the budget position. For example, the system of child schemes is to be reformed and toned down in order to increase employment participation and to offer income support to those who need it most. In addition a task setting system is to be introduced at the national government level which will generate 1.1 billion. The total package of measures resulting from the Coalition Agreement was sent to the European Commission as Annex B of the update of the stability programme in December 2012.

The government's budget policy

As regards the budget policy, the government has largely kept to the budget rules which served the previous governments so well, although some rules have been tightened. As agreed in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the Member States of the eurozone will incorporate the EU budget rules, as defined in the Stability and Growth Pact into their national legislation. More details on this bill and the Dutch budget policy can be found in Chapter 8.

Chapter 3 Economic outlook

Around the world economic growth has been delayed in 2012. The economic downturn is expected to continue during the first half of this year as well. The most recent forecast by the Netherlands Bureau for Economic Policy Analysis [Centraal Planbureau] (CPB) which was issued in March 2013 shows that the economic outlook for the Netherlands has considerably worsened since the Macro-Economic Analysis of September 2012. The expectation is that economic growth in 2013 will be –½% and 1% in 2014. This growth will have been caused entirely by exports which are going to pick up thanks to a slight recovery in world trade. In 2013 unemployment is increasing substantially and will affect 6¼% of the working population[4]. In 2014 it will again rise slightly to 6½%.

Introduction

This chapter is structured as follows. The international economic developments will be outlined first. After that the underlying macro-economic hypotheses used in the stability programme are clarified. Lastly, the economic developments and prospects which ensue from the baseline are discussed. This scenario is based for 2013 and 2014 on the latest economic estimate by the CPB (Central Economic Plan (CEP), March 2013). For 2015 and beyond, the medium term estimate by the CPB dating from November 2012 (Coalition Agreement) is used, because the CEP does not provide any estimate for this period[5]. The prospects for the medium term are described in more detail in the National Reform Programme.

International developments and technical assumptions

The world economy is projected to grow the coming years at a rate between 3% and 4%. The US and the Eurozone are lagging behind, with growth rates of 2% and -0.5% respectively in 2013. The Eurozone performance is particularly worrying. The figures show clearly that governments are finding it difficult to dig their way out of debt.

In advanced economies, average debt levels have reached unprecedented peaks while the lion's share of age-related additional spending is still to come. In the Eurozone the average public debt is 90% of the GDP. This is substantially lower than in the US where the debt level has already passed the 100% GDP mark. The fact that the budget deficit in the US is relatively large means that the American debt is increasing more rapidly than the European one, despite the higher growth in GDP. Japan's public finances are in an even worse state with a debt of 215% GDP and weak prospects for growth. Significant budgetary intervention is also unavoidable in the US and Japan, which will reduce growth prospects in the short and medium terms. Despite the low level of growth, oil continues to be expensive and that is hampering recovery. Table 3.1 shows the external assumptions on which the Dutch baseline is based for the period 2013-2014 (CEP).

[4] International definition

[5]The medium term projection by the CPB only shows the average growth for the medium term. For that reason, the figures for 2015-2017 reflect the average growth during this period.

Table 3.1 External assumptions

	2012	2013	2014
Short-term interest rate (annual average)	0.6	0.3	0.6
Long-term interest rate (annual average)	1.9	2.0	2.3
USD/€ exchange rate (annual average)	1.9	2.0	2.3
World GDP growth	3.0	3.3	3.8
GDP growth in the Eurozone	-0.5	-0.5	1
Relevant world trade	0.5	2.7	4.9
Oil price (Brent, USD per barrel)	112	109	109

Economic developments and prospects according to the baseline

The Dutch economy is expected to contract by ½% in 2013. This is mainly due to low domestic demand and a run-on effect from the second half of 2012. GDP figures show that the Dutch economy has moved from recovery to a recession for the third time since 2008. After several quarters of stagnation, the expectation is that economic growth will again be positive during the course of 2013. With economic growth rates at around 1.1% in 2014, the recovery is expected to be moderate. This is in line with international studies that indicate that recovery takes longer and is more modest after a financial crisis.[6]

Table 3.2 Contributions to actual GDP growth, 2012-2014[7]

	2012 share in %	2012	2013	2014
Private consumption	32	-0.5	-½	0
Investments in housing	4	-0.4	-¼	0
Investments in business	5	-0.2	0	0
Government spending	27	0.0	0	0
Exports	32	0.2	½	1
Total (real GDP growth)		-0.9	-½	1

As shown in table 3.2 above, exports account for 32% of GDP (adjusted for import components). Exports are expected to make the largest contribution to GDP growth in the period 2012-2014. That is why global economic developments continue to be extremely important for the Dutch economy. As can be seen in table 3.1, relevant world trade is expected to increase in 2014 thereby having a positive effect on Dutch GDP.

[6] See Reinhart, C. M. and Rogoff, K. (2009), "The Aftermath of Financial Crises," American Economic Review 99: 466-472.

[7] The total may differ from the sum of the parts due to the figures being rounded off.

From a long-term perspective, the growth contribution by domestic demand categories (consumption, investments and government spending) is projected as being noticeably low for the coming period. During the late 1990s, private consumption contributed more than 1% point to GDP growth each year. This was partly due to a substantial increase in house prices and an increase in actual household disposable income. After the year 2000, the effect of private consumption on GDP growth diminished and its contribution to growth was zero in 2006. Government expenditure was the only domestic demand category that had a positive impact on growth from 2006-2010. This positive contribution came at a price: the budget balance worsened from –0.3% in 2005 to -5.1% in 2010.

Government spending is at a constant level, but is not growing. Furthermore, subdued wealth and income developments are expected to temper private consumption. Additionally, households are expected to repair some of their wealth losses (which have been primarily caused by rapidly declining house prices). The expectation is that this will result in the individual savings being positive again in 2014 for the first time since 2002. The forecast is that the growth contribution by government spending and private consumption will, on balance, be negative in 2013 and neutral in 2014. The exception is that gross investments by companies (excluding housing) will rise slightly by ½% in 2013 as a consequence of improvements in the economy in the second half of this year. The uncertainties connected with this scenario continue to be huge: a quicker recovery in world trade and the European economy may help to increase growth in the Dutch economy. An escalation of the euro crisis may lead to considerably less economic growth.

Table 3.3 Macro-economic prospects

	ESA code	2012 Level (€ billion)	2012 rate of change	2013 rate of change	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change
Actual GDP	B1*g	602.8	-0.9	-0.4	1.1	1.6	1.6	1.6
Nominal GDP (€ billion)	B1*g		0.1	0.0	0.0	2.5	2.5	2.5
Components of actual GDP								
Private consumption expenditure	P.3	273.6	-1.5	-1.6	0.3	0.1	0.1	0.1
Government consumption expenditure	P.3	172.4	0.5	-0.1	0.2	0.1	0.1	0.1
Gross fixed capital formation	P.51	101.1	-4.9	-2.1	2.3	2.6	2.6	2.6
Changes in inventories (Δ)	P.52+P.53	2.5	0.0	-0.2	0.1	0.0	0.0	0.0
Exports of goods and services	P.6	522.8	3.1	2.8	4.2	5.1	5.1	5.1
Imports of goods and services	P.7	469.5	2.8	2.0	4.2	4.5	4.5	4.5
Contributions to actual GDP growth								
Final domestic demand		547.1	-1.4	-1.1	0.6	0.5	0.5	0.5
Changes in inventories (Δ)	P.52+P.53	2.5	0.0	-0.2	0.1	0.0	0.0	0.0
External balance of goods and services	B.11	53.2	0.5	0.9	0.4	1.1	1.1	1.1

Labour market

The shrinking of the economy is expected to lead to an increase in unemployment from 4.5% in 2011 to 6.25% in 2013 and 6.5% in 2014. In response to the drop in production in the third of fourth quarters of 2012 will cause companies to lower their demand for labour despite the working population continuing to grow at a moderate pace. In comparison to previous years the increasing supply of labour will, however, play a more limited role in the increase in unemployment.

Table 3.4 Labour market developments

	ESA code	2012	2012	2013	2014	2015	2016	2017
		level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, people (x 1,000)		8676.8	-0.2	-0.4	0.1	0.5	0.5	0.5
2. Employment, number of hours worked		6720.8	-0.5	-0.8	-0.2	0.2	0.2	0.2
3. Unemployment (% of the working population)		470.2	5.3	6.3	6.4	6.7	6.6	6.1
4. Labour productivity, people			-0.7	0.0	0.9	1.1	1.1	1.1
5. Labour productivity, number of hours worked			-0.5	0.4	1.2	1.4	1.4	1.4
6. Total wage of employees	D.1	310.4	1.2	1.1	2.4	1.6	1.6	1.6
7. Wage per employee (€)		35.8	2.2	2.2	2.7	1.3	1.3	1.3

Chapter 4 General government balance and debt

From the start of the Dutch excessive deficit procedure in December 2009, the Dutch government has taken many consolidation measures to correct the excessive deficit. However, due to the negative macro-economic developments and structural reduction in income, the budgetary situation has worsened compared to the forecast at the start of this term of government. In contrast to previous forecasts, a deficit of 3.3% is expected for 2013. This will increase to 3.4% for 2014 if no additional measures are taken. Such additional measures will only be taken if the Macro-Economic Outlook by the CPB gives cause to do so, given the budget balance objective of -3% in 2014. At that point in time the 1 March package (see table 1.1) will be revived if, and to the extent, this turns out to be necessary at that juncture. The government is open to negotiations with political parties that share its ambition to bring the budget under control at a responsible pace. The government's commitment to realising the EMU objective is therefore as strong as ever and will, where necessary, be effectuated with additional measures.

Introduction

This chapter gives an overview of the budget balance and public debt over the period 2013-2017. The first paragraph describes the policy strategy of the government. After that, the chapter focuses on the budget balance and debt in the medium term. The figures from this chapter for 2013 and 2014 are based on the latest economic projection by the CPB (Central Economic Plan (CEP), March 2013). For 2015 and beyond the medium-term projection by the CPB dating from November 2012 (Coalition Agreement) is used because the CEP does not have a projection for this period.

Policy strategy

The government's financial and socio-economic policy is based on three pillars: putting public finances in order, ensuring an honest distribution of cutbacks and stimulating sustainable growth. This strategy is in line with the Annual Growth Survey 2013, which calls upon Member States to restore the sustainability of public finances by means of structural reforms.

Medium-term budgetary outlook

Table 4.1 shows the development of the budget position. Since the analysis of the Coalition Agreement by the CPB in November 2012 the budget position has worsened due to a number of unforeseen circumstances. The key reason for this is the disappointing growth realised in 2012 (which continued into 2013) and the negative adjustment of the outlooks for 2013 and 2014 compared to the expectations at the time the Coalition Agreement was entered into. This has led to a decrease in tax revenue and an increase in social security spending. In addition, steps were taken to prevent the bankruptcy of SNS REAAL, which would have been a shortfall on the expenditure side. This contrasts with the windfall on the income side due to the revenue from the auction of 4G frequencies. In net terms this windfall and shortfall cancel each other out.

The budget rules will be applied for 2013 and any overruns will be redressed within the budget. With the exception of a number of supporting measures for, in particular, the building industry, no additional measures are to be taken. For 2014 the government is fully committed to reducing the deficit to the EMU objective of 3%. The government is waiting to see what economic developments take place. Such additional measures will only be taken if the Macro-Economic Outlook by the CPB gives cause to do so, given the balance objective of -3% in 2014. At that point in time the package of 1 March (see table 1.1) can be revived if and in so far as this turns out to be necessary at that juncture.

The extra measures from the 1 March package will lead to lower expenditure and higher revenues in 2014. This amounts to 0.7% GDP, of which 0.4% GDP will be used to improve the balance and 0.3% will be used to compensate the estimated losses on government income and expenditure as a result of the package (see table 4.1, the development of the budget position between 2015 and 2017 is included in table 5.1).

Table 4.1 Development of the budget position (% GDP)

	2013	2014
Coalition Agreement 2013-2017	**-2.6%**	**-2.7%**
Tax and premium revenues	-1.2%	-1.3%
Revenue from 4G auction	0.6%	0.0%
Nationalisation of SNS / resolution levy	-0.6%	0.2%
DNB dividend	0.1%	0.1%
Natural gas revenues	0.1%	0.1%
Interest charges	0.0%	0.1%
Spending on unemployment benefits	-0.1%	-0.1%
Nominal development	0.2%	0.3%
Other	0.1%	0.0%
CEP 2013	**-3.3%**	**-3.4%**
1 March package	-0.1%	0.4%
Total	**-3.4%**	**-3.0%**

In addition to a reduction in the nominal government deficit in the short term, the Netherlands is also focusing on realising a reduction of the structural deficit in the medium term. During the period 2010-2013 the structural deficit has been reduced by an average of 0.8% GDP per year. This is in line with the average improvement of 0.75% GDP demanded by the European Commission during the excessive deficit procedure. The structural EMU balance decreases in the CEP baseline. This is initially due to a worsening in the actual EMU balance between 2013 and 2014. Secondly the estimated economic growth is causing a decrease in the economic conditions component in the actual EMU balance. With the inclusion of the 1 March package the improvement in the structural EMU balance is to be continued into 2014 as well. This means that the structural EMU balance is expected to improve by 2.6% GDP between 2010 and 2014, which represents an annual average improvement of 0.65% GDP.

Table 4.2 Medium-term objective

Structural EMU balance	2012	2013	2014	2015	2016	2017
Structural EMU balance CEP and Coalition Agreement	-2.4	-1.4	-1.7	-0.9	-1.1	-1.2
1 March package (incl. one-offs)		*-0.1*	*0.3*			
Structural EMU balance total	-2.4	-1.5	-1.4	-0.9	-1.1	-1.2

Public debt

Table 4.3 shows the long-term development in public debt. The deterioration in the public debt until 2015 is the consequence of lower economic growth in 2012, 2013 and 2014 and of the nationalisation of SNS REAAL. The treasury banking of local government authorities (the deposits maintained by local government authorities are to be added to the Treasury) is expected to reduce public debt during this period.

Table 4.3 Components of public debt (%GDP)

% GDP	2012	2013	2014	2015	2016	2017
1. Gross debt	71.4	74.0	75.0	71.4	71.4	70,8
2. Change in gross debt	5.9	2.6	1.0	-3.6	0.0	-0.6
Of which:						
3. Primary deficit	-2.1	-1.3	-1.6	-0.1	0.1	0.6
4. Interest payments	1.8	1.9	1.8	2.0	2.1	2.1
5. Stock/flow changes	1.9	-0.6	-2.4	-5.7	-2.0	-2.2
Of which:						
Differences between cash and accruals	-0.1	0.0	0.0	-0.1	-0.1	0.0
Net accumulation of financial assets	2.1	0.2	-0.4	-0.3	-0.3	-0.3
Denominator effect	-0.1	-0.8	-1.9	-1.7	-1.7	-1.8
Link Coalition Agreement-CEP 2015				-3.5		

Chapter 5 Sensitivity analysis and comparison with previous update

Compared to the previous Stability Programme of April 2012, economic growth in 2012 turned out lower than foreseen. An even greater difference is expected for 2013. Due to the lower growth forecast, the budget deficit and public debt have been revised upwards. In 2014 the government is going to ensure that the deficit will be sustainably less than 3%.

Introduction

This chapter describes how a number of micro economic core variables differ compared to the previous update of the Stability Programme.[8] This is followed by an analysis of how these variables develop in alternative scenarios. The figures from this chapter for 2013 and 2014 are based on the latest economic projection by the CPB (Central Economic Plan (CEP), March 2013). For 2015 and beyond the medium-term projection by the CPB dating from November 2012 (Coalition Agreement) is used because the CEP does not have a projection for this period.

Comparison with Stability Programme of April 2012

As shown in table 5.1 the growth for 2012 and, in particular, for 2013 is lower than assumed in the previous Stability Programme. Of course, the worsening growth forecast is having an effect on public finances. The budget deficit is expected to be higher than in the previous update. Without any additional policy measures, the CPB estimates the deficit to be 3.4% in 2014.

Table 5.1 Differences compared to the Stability Programme of April 2012

	ESA Code	2012	2013	2014	2015	2016	2017
Growth actual GDP (%)							
Update April '12		-0.75	1.25	1.5	1.5	n/a	n/a
Current update		-0.9	-0.5	1	1.6	1.6	1.6
Difference		-0.15	-1.75	-0.5	0.1	n/a	n/a
Budget deficit (% GDP)	EDP B.9						
Update April '12		4.2	3	n/a	n/a	n/a	n/a
Current update		4.1	3.4	3.0	2.0	1.9	1.4
Difference		-0.1	0.4	n/a	n/a	n/a	n/a
Public debt (% GDP)							
Update April '12		70.2	70.7	n/a	n/a	n/a	n/a
Current update		71.4	74.0	75.0	71.4	71.4	70.8
Difference		1.2	3.3	n/a	n/a	n/a	n/a

[8]An update of the Stability Programme was sent to the European Commission in December 2012 because, in connection with the fall of the government in April 2012, no figures could be provided for the years 2014-2015. Here we have chosen not to compare the figures with the update of the Stability Programme dating from December 2012, but with the previous official Stability Programme dating from April 2012. Other Member States are also comparing their current situation with that of a year ago.

Such additional measures will only be taken if the Macro-Economic Outlook by the CPB gives cause to do so, given the balance objective of -3% in 2014. At that point in time the package of 1 March (see table 1.1) can be revived if and in so far as this turns out to be necessary at that juncture.

Alternative scenarios and risks including sensitivity of budgetary projections

Given the extensive trade and financial relations of the Netherlands with the rest of the world, the main risks surrounding the baseline scenario stem from external sources. Therefore, this sensitivity analysis presents possible effects of a slowdown in relevant world trade which is a key factor in Dutch economic growth prospects. In addition, the effects of an increase in share prices by 20% as a result of improving consumer and producer confidence are to be analysed. Both scenarios assume a change in the variables at the beginning of 2013, and then present the related effects for the period 2013-2014. These scenarios are estimates drawn up by the Ministry of Finance, based on the most recent version of SAFFIER (CPB's model for short-term projections, medium-term scenarios and analyses of coalition agreements and policy options).

Scenario 1: A slowdown in world trade, lower Dutch exports

The recovery of the global economy could be weaker in the short-term as a result of a slower restoration of consumer and producer confidence. This would entail higher savings by consumers and a much slower build-up of inventories by the corporate sector, thereby providing a negative impulse for global trade activity. Due to lower demand compared to the baseline, both international as well as domestic, employment would decrease in the projections. Lower VAT receipts, in combination with an increase in unemployment benefits, would lead to a deterioration of the EMU balance. Table 5.3 shows the expected effects over the period 2013-2014 of a decrease in relevant world trade by 2 percentage points compared to the baseline in the programme scenario.

Table 5.3 Alternative scenario 1: slowdown of world trade by 2 percent (deviations in %)

	Baseline scenario 2013	Baseline scenario 2014	Deviation from baseline scenario 2013	Deviation from baseline scenario 2014	Cumulative deviation from baseline scenario (2013-2014)
Volume of GDP	-0.5	1	-0.4	-0.2	-0.6
Consumer price index (CPI)	2.75	2	0	-0.2	-0.2
Private sector wages	2.25	2.75	-0.4	-0.2	-0.6
Volume of private consumption	-1.5	0.25	0	-0.4	-0.4
Volume of private investments (with the exception of investments in houses)	0.5	2.25	-2.2	0.2	-2
Volume of goods exports (excluding energy)	3.25	5	-1.8	0.2	-1.6
Employment	-0.75	-0.25	-0.2	-0.2	-0.4
EMU balance (% GDP)	-3.4	-3.0	-0.2	-0.4	-0.4

Scenario 2: An increase in share prices by 20%

An increase in consumer and producer confidence could provide an impulse to share prices which often are ahead of the actual economic developments. Table 5.4 shows the expected effect during the period 2013-2014 of an increase in share prices by 20% in 2013. Higher share prices have an upward effect on private consumption both via the higher level of share capital and via the positive revaluation of that capital. The positive effects on consumption translate into production volume and then also cause an increase in investments. The EMU balance is improving slightly. In this scenario no account is taken of the fact that the higher share prices improve the financial position of pension funds and that this could put pressure on pension premiums. Only the consequences related to a temporary increase in family spending power are accounted for, and, seen in this light, the figures represent an underestimation of what could happen in reality.

Table 5.4 Alternative scenario 2: 20% increase in share prices (deviations in %)

	Baseline scenario 2013	Baseline scenario 2014	Deviation from baseline scenario 2012	Deviation from baseline scenario 2013	Cumulative deviation from baseline scenario (2012-2013)
Volume of GDP	-0.5	1	0	0.1	0.1
Consumer price index (CPI)	2.75	2	0	0	0
Remuneration per employee market sector	2.25	2.75	0	0.1	0.1
Volume of private consumption	-1.5	0.25	0.1	0.1	0.2
Investments by companies (excluding housing)	0.5	2.25	0.1	0.2	0.3
Volume of goods exports (excluding energy)	3.25	5	0	0	0
Employment	-0.75	-0.25	0	0	0
EMU balance (% GDP)	-3.4	-3.0	0	0.1	0.1

Chapter 6 Sustainability of public finances

According to the CPB, the package of policies of the Rutte-Asscher government is improving the sustainability of public finances by 2.3% GDP and will therefore generate a positive balance of 1.0% GDP[9]. According to the calculations of the European Commission (EC) Netherlands has a sustainability gap of 5.9% GDP[10]. This major difference is caused by differences in the policy assumptions (the weighing in of policy) and the calculation technique, and illustrates the sensitivity of the outcomes for technical assumptions. For example the CPB includes the entire government policy up until 2017 in its calculations. The EC is more selective and only includes current policy insofar as it has already been implemented and has been translated into an improved EMU balance or laid down in law (pension reforms). Although, when it comes to estimating the size of the sustainability gap, there is a major difference between the CPB and the EC, this is less so the case with regard to the assessment of policy direction. Government policy is improving the sustainability of public finances, with the raising of the pensionable age and the linking of the state pension eligibility age to life expectancy being the most significant contributory factors.

In 2009 a large number of guarantees were issued to the financial sector, for example in the form of the guarantee scheme for loans between banks. These guarantees are now being scaled down. As regards new guarantees, a strict 'no, unless' policy has been included in the budget rules.

Introduction

This chapter first discusses the definition of the sustainability gap and then analyses the projections for public finances up until 2060. Attention is also paid to the various assumptions made by the CPB and the EC with regard to the sustainability calculations. Lastly, an overview is provided of the conditional obligations of the Dutch government.

The sustainability gap

Working to achieve healthy public finances improves the future resilience of Dutch public finances to demographic developments. Demographic projections have shown that the ratio of retired/working people is set to increase significantly in the period up until 2040. This will result in an even greater discrepancy between expenditure and income from tax and social security premiums. Age-related expenditure on state pensions and health care will increase significantly faster than revenues. If there is no policy in place to limit the budget deficit or to ensure that collective arrangements remain viable in the future, budget deficits and the national debt will spiral out of control in the years ahead.

[9] CPB, Update analysis of the economic effects on the coalition agreement financial framework (12 November 2012)

[10] EC, Fiscal Sustainability Report 2012.

The relationship between public finances now and in the future is depicted using the sustainability gap. Public finances are sustainable if all future income is sufficient to pay for future expenditure, including the interest on the existing debt. If that is not the case, public finances will be unsustainable and sooner or later the public debt will get out of hand. The sustainability gap or surplus represents the difference between the budget balance actually expected at the end of the government's term in office and the minimum budget balance at which public finances are sustainable[11]. A key assumption in the calculation technique is the assumption of constant arrangements. This means that each generation spends an equal amount of its income on, for example, health care or education. Therefore, sustainability calculations are not a projection of the most likely path but, above all, an analysis of the question of whether the current policy can be continued into the distant future.

In the analysis of the Coalition Agreement in November last year the CPB published new estimates for the Dutch sustainability gap. Government policy is making a considerable contribution to improving the sustainability of public finances. In the calculations by the CPB, which best do justice to the specific debt situation, the sustainability gap turns into a surplus of 1.0% GDP, thanks to an improvement of 2.3% GDP which is related to the package of policies in the Coalition Agreement. The Coalition Agreement follows on from the budgetary agreement 2013 which already contained the important state pension reforms and earlier policy by the Rutte-Verhagen government aimed at improving the sustainability of government expenditure (see Table 6.1). The most important improvements in the Rutte-Asscher Coalition Agreement are the result of measures which, even in the period 2013-2017, relate to the EMU balance. In particular, measures relating to health care will contribute significantly to sustainability because their effect will be greater in the future due to ageing. Of the above-mentioned 2.3% improvement as a consequence of government policy based on the Coalition Agreement, 1.3% is down to healthcare measures. Policy which focuses on state and other pensions, the housing market and the other deficit-reducing measures account for the other 1.0%.

[11]This figure is determined by a technical assumption that the collective arrangements in 2017 will be adapted in one go so that in the future – despite ageing – no additional adaptations will be necessary. These more cautious arrangements therefore apply for both current and future generations.

Table 6.1 Development of sustainability balance[12]

	% GDP	Billion euros
Sustainability June 2010 CPB Ageing divided	-4.5	-27
Rutte 1 policy, pension agreement and economic situation	*+1.9*	*11*
Sustainability CEP 2012 *(March 2012, previous SP update)*	-2.6	-17
Improvement in sustainability by budgetary agreement 2013	*1.8*	*12*
Economic situation	*-0.3*	*-2*
Sustainability including budgetary agreement *(June 2012)*	-1.1	-7
Worsening of budgetary situation	*-0.2*	*-1*
Sustainability baseline financial framework (*Oct 2012*)	-1.3	-9
Improvement sustainability financial framework	*2.3*	*15*
of which State and other pensions	*0.2*	*1*
Housing market	*0.3*	*2*
Healthcare	*1.3*	*9*
Other	*0.5*	*3*
Position including improvement Coalition Agreement	**1.0**	**7**

Projections until 2060

Table 6.2 below shows an update of the current projections by the CPB. These must be seen in conjunction with the calculations by the European Commission (EC) which are considerably different as regards methodology. The greatest difference consists of the weighing in of all current policy. The CPB uses the entire government policy up until 2017 in the calculation discussed here. The EC is more selective and only includes current policy insofar as it has already been implemented and has been translated into an improved EMU balance or laid down in law (pension reforms). Differences in the technique used also play a role. For example the EC uses a different population forecast (Eurostat rather than CBS), of the assumptions relating to the development of indirect tax income (in the CPB calculations these increase while in the EC calculations they are kept constant) and the EC uses a different assumption for healthcare expenditure (slightly faster growth while the EC deviates from constant arrangements). The initial budget position also differs to some extent in the CPB and EC calculations. The CPB expects a certain degree of recovery growth after 2017 which will lead to an improvement in the sustainability of public finances.

[12]This linking table is based on the CPB memorandum of 19 June 2012, *further analysis of sustainability profit and balance objective for the coming government term in office* and the CPB memorandum of 29 October 2012 *Analyse effecten financieel kader Regeerakkoord.*

Table 6.2 Projection of public finances according to a CPB estimate

% GDP	2010	2020	2030	2040	2050	2060
Total expenditure	51	47.2	48.5	50.3	49.9	49.4
Of which: Age-related expenditure	20.5	21.8	23.7	26	25.9	25.5
Pension expenditure	6.9	7.4	8	8.9	8.7	8.5
Social security expenditure	12.6	13.1	13.8	14.6	14.4	14.2
Old age and early retirement pensions	4.9	5.7	6.3	7.2	7	6.8
Other pensions (invalidity, surviving relatives)	2	1.7	1.7	1.7	1.7	1.7
Occupational pensions						
Healthcare	6.3	7.5	8.2	8.6	8.5	8.4
Long-term care	3.8	3.5	4.3	5.1	5.4	5.4
Education expenditure	5.5	5.1	5	5.1	5.1	5.0
Other old age related expenditure						
Of which: consolidated public pension fund assets						
Assumptions						
Labour productivity growth	2	1.5	1.5	1.5	1.5	1.5
Actual growth of GDP	1.6	1.5	1	1.6	1.6	1.5
Participation rate men (age 15-64)	80.5	81.4	81.4	81.6	81.7	81.7
Participation rate women (age 15–64)	61.4	64.4	65.4	67.1	68.1	68.1
Total participation rate (age 15–64)	71	72.9	73.4	74.3	75	75
Unemployment (20-64)	5.5	3.4	3.4	3.4	3.4	3.4
Population of people aged 65+ compared to total population (%)	15.7	19.1	20.5	22.2	22	21.3

Contingent liabilities

As shown in Table 6.3 the number of guarantees has significantly increased in recent years. This is primarily a consequence of the crisis. In 2009 a large number of guarantees were issued to the financial sector, for example in the form of the guarantee scheme for loans between banks. As shown in the table, the guarantees issued to the financial sector for interbank loans are now being scaled down.

Table 6.3 Guarantees issued by central government (in billions of euros)

	2011	2012
Total guarantees	236.4	257.6
Of which, in connection with (international) financial stability:		
Interbank loans guarantee	33.2	18.2
EU balance of payments support	2.3	2.3
European Financial Stability Facility (EFSF)	97.8	97.8
European Financial Stability Mechanism (EFSM)	2.8	2.8
European Stability Mechanism (ESM)	-	35.4
DNB participation in IMF capital	47.3	47.3
Participation in ABN Amro	1.0	1.0

Currently the largest guarantee is issued to the temporary EFSF European emergency fund, with a ceiling of almost 100 billion euros. This is the maximum amount which the Netherlands guarantee. However, the space under the ceiling has not been fully used. Up to now fewer guarantees have been provided amounting to less than half the ceiling. The ESM permanent emergency fund became operational in 2012, thereby making it the primary emergency fund. The EFSF can still issue new loans up until July 2013. One aspect not shown in this table is that, in 2012, the Euro countries made a capital contribution to the ESM (40% of the total paid-up capital of the ESM of 80 billion euros has now been deposited, with the rest being deposited in the coming years). The Dutch share in the paid-up capital is 5.71% or 4.6 billion euros. In addition the ESM includes available capital amounting to 620 billion euros (comparable with guarantees which the Euro countries issued to the ESM). As shown in Table 6.3, the Netherlands has so far issued 35.4 billion euros of guarantees (or 5.71%).

The new guarantees issued to SNS REAAL and De Nederlandsche Bank (DNB), of 5.0 billion euros and 5.7 billion euros respectively, have not been included in Table 6.3, because these guarantees were issued in 2013. These new guarantees will, however, be shown in the summary of guarantees of the next Budget Memorandum.

Due to the above-mentioned guarantees, public finances are, therefore, exposed to risks which could have significant budgetary consequences. It is therefore extremely important that these risks are properly managed. For that reason one of the government's budget rules (rule 25) states that a strict 'no, unless' policy applies. Cautiousness has to apply when issuing new guarantees and counter guarantees. In addition, all the existing risk arrangements will be assessed by a specially set up a commission, known as the Risk Arrangements Commission [Commissie Risicoregelingen] (CRR). The expectation is that the CRR will send a final report to Parliament soon.

Assessment takes place using an assessment framework which examines, among other things, the necessity of the arrangement, the exact extent of the risks, which premium is being requested and which measures have been taken to manage the risks. All risk arrangements are also assessed on the basis of this assessment framework.

Chapter 7 - Quality of public finances

The government guarantees the quality of public finances on both the expenditure and income sides. On the expenditure side, the quality is safeguarded by obliging ministries to evaluate the efficiency and effectiveness of their policy periodically, meaning at least once every 4 to 7 years. In addition, annual interdepartmental policy reviews are carried out, referred to as IBOs. During these reviews an area of policy is thoroughly audited and alternative policy variants presented, always from the perspective of savings or a more efficient spending of funds. On the income side, the efficiency and effectiveness of all tax expenditure is periodically evaluated. New tax expenditure is subject to a review framework which can be used to weigh up whether (the intensification of) a fiscal measure is preferred or not. In this way the quality of public finances is also safeguarded on the income side.

Introduction

This chapter describes first how the quality of the expenditure side of the national budget is guaranteed. It then describes which resources are used to safeguard quality on the income side.

Developments on the expenditure side

Notwithstanding the need for austerity measures, the government continues to play a significant role in the economy. The collective expenditure ratio accounts for almost half of the GDP (Table 7.1). This makes it all the more important to ensure high quality expenditure. Incidentally, the same applies even in a situation of no cutbacks. After all the government is required to assess continually whether funds are being used properly and whether improvements are possible through reforms.

A narrow definition of 'better' spending concerns its legitimacy. The legitimacy of Dutch public spending has been consistently at a very high level for years. Although this is something positive it does not, in itself, tell us anything about the quality of the expenditure. In a broader definition of better spending it is important to look at the effectiveness of the expenditure and the way in which policy is created. Various instruments can be used to do this which are also embedded in the decision-making processes. In the case of many investments, for example, social cost-benefit analyses are obligatory and have to take place in accordance with a specific format and methodology. Many evaluations also take place on an ex post basis. Ministries are obliged to evaluate the efficiency and effectiveness of their policy periodically, at least once every four to seven years. These reviews are subject to quality criteria which are laid down in regulations. A total of thirty-five policy audits were announced for 2012. At this moment 17 of these have been completed and published and two have been integrated into an Interdepartmental Policy Review. Of the other 18 policy audits, 13 are to be completed in 2013, while the remaining 5 have not yet been started. In recent years the effectiveness of approximately half of budget-funded policy expenditure has been reviewed. The Court of Audit [Algemene Rekenkamer] monitors progress carefully and the government wants this percentage to increase in the future.

Lastly, annual interdepartmental policy reviews are carried out. These are referred to as IBOs. These reviews involve an area of policy being thoroughly audited and alternative policy variants presented, always from the perspective of savings or a more efficient spending of funds. An evaluation of the IBOs has shown that these are an important aspect of 'better spending' and, in many cases, have had a substantial influence on the introduction of new, or the adaptation of, existing policy. A special mention should be made of the broad review of 2009/2010 which generated twenty IBO reports in a single year and covered a considerable portion of the total expenditure. The report is used by political parties for their election programmes, by negotiators during the formation of the government and by the government during the annual austerity rounds. In specific terms it can be stated that extensive use is made of the insights and variance from the reviews in key policy areas such as housing market, healthcare and the (lower end of the) labour market. The findings of the report entitled 'Towards more affordable care' [Naar beter betaalbare zorg], which was written by the healthcare expenditure management taskforce set up especially for this purpose, have been incorporated into policy.

The cutbacks and structural reforms which the government is implementing are also based wherever possible on sound and recent information. The quality of the information on which policy choices are made partially determines their success. Another contributing factor is the success of the policy implementation. The existence of an obligation to carry out periodical evaluations means that new or amended policy is eventually evaluated. The focus in the period ahead is on the further improvement of, in particular, the 'technical' quality of the evaluations.

In the most recent CEP projection by the CPB an increase in the total expenditure ratio between 2011 and 2013 is shown, followed by a decline from 2014 onwards (see Table 7.1). A drop in the collective expenditure ratio may encourage growth, primarily because it can also lead to lower collective costs. The drop in the expenditure ratio is primarily going to be achieved by decreasing collective expenditure on public administration. This is contrasted by an increasing expenditure ratio for healthcare which is set to continue growing autonomously. The IMF has indicated that this increasing healthcare expenditure may have a negative influence on public finances and the country's competitive position in the longer term. The government has acknowledged this development and included an ambitious package of measures in the Coalition Agreement to reverse the increase in healthcare expenditure, partly with the help of the report referred to above. Compared to the previous Stability Programme the interest expenditure is lower, partly as a consequence of lower interest percentages demanded by the capital markets. The effective interest on ten year Dutch government bonds was, on average, 1.9% in 2012. This was the lowest interest had been since 1960 and represented a decrease of 1% compared to 2011.

Table 7.1 Government expenditure and revenues as percentage of GDP[13].

	2011	2012	2013	2014
Collective charges and non-tax revenues	**45.3**	**46.1**	**47.0**	**46.5**
of which taxes	23.6	22.9	23.8	23.7
of which social security premiums	14.8	15.8	16.1	16.3
of which other revenues	6.9	7.4	7.1	6.5
Gross collective expenditure	**49.8**	**50.1**	**50.3**	**50.0**
of which healthcare	10.3	10.7	10.8	11.0
of which social security	12.8	12.9	13.4	13.5
of which public administration	10.7	10.8	10.5	10.2
of which education	5.4	5.5	5.5	5.4
of which interest charges	2.0	1.8	1.9	1.8
of which other expenditure	8.6	8.4	8.2	8.1
EMU balance CEP	-4.5	-4.0	-3.3	-3.4
1 March package			*-0.1*	*0.4*
EMU balance	**-4.5**	**-4.0**	**-3.4**	**-3.0**

Developments on the revenue side

The quality of the tax system is monitored in a variety of ways. Commissions were recently set up to advise on the monitoring of the system as a whole. In 2010 the Tax System Study Commission [Studiecommissie Belastingstelsel] issued a preliminary study into various scenarios for a possible review of the Dutch tax system. The report analyses the question of whether improvements in the tax makes possible and also whether, within the individual tax sorts simplification is possible against the background of 5 core themes: the solidity, solidarity, economic efficiency, simplicity and finally the environmental friendliness of the tax system.

The independent Commission on Income Tax and Allowances [Commissie inkomstenbelasting en toeslagen] (Van Dijkhuizen) has been asked by the government to make a number of proposals for revising the tax system. The instruction is to assess the possibilities of an actual, but eventually budget-neutral, reduction in the rates for income tax. The Commission's final report is expected in the spring of 2013.

In the budget rules, increasingly more attention is being paid to controlling tax expenditure. The efficiency and effectiveness of all tax expenditure is evaluated periodically. The evaluation reports are sent to the Lower House together with the government's viewpoint on the matter. An assessment framework applies to new tax expenditure assessment framework. The assessment framework can be used to weigh up whether (the intensification of) a fiscal measure is preferred or not. In addition, as far as the government is concerned the points of departure in the Fiscal Agenda continue to apply. All efforts are aimed at making the tax system simpler, more robust and more resistant to fraud.

[13] Based on the CEP 2013, Annex 9.

Chapter 8 Institutional features of public finances

In the past year a number of innovations have been introduced regarding the institutional features of public finances. For example, new budgetary rules have been agreed in the Coalition Agreement. In addition, the Sustainable Public Finances Bill [Wet Houdbare Overheidsfinanciën] (HOF) has passed the Lower House and is to be debated in the Upper House. This bill codifies the European budgetary rules and stipulates that the State and local government bodies must make similar efforts to comply with these agreements. The bill also lays down the medium-term budget policy framework.

Introduction

This chapter provides an overview of the most important institutional innovations relating to public finances. It first analyses the new budget rules laid down in the Coalition Agreement. This is followed by a discussion of the HOF bill.

New budget rules

The Coalition Agreement adapts the budgetary rules, partly on the basis of the recommendations in the 14th report by the Study Group On The Budget Margin [Studiegroep Begrotingsruimte]. The set of budget rules is based on the usual rules on income and expenditure used in the past and provides a technical detailing of the agreements made in the Coalition Agreement. This concerns, among other things:

- The European budget rules take precedence. The signal margin introduced by the Rutte I government no longer applies;
- A windfall formula has been agreed if the Netherlands fulfils the MTO objective of the Stability and Growth Pact and the actual EMU balance displays a multi-year surplus. As regards this surplus, 75% (was 50%) is intended to pay off the national debt, while 25% (was 50%) is to be used to ease the tax and premium burden;
- Interest charges on the government debt have been excluded from the framework and that means that the interest windfall formula no longer applies. The European requirements also govern interest shortfalls;
- Tightening the rules relating to guarantees: in the first instance guarantees are the responsibility of the appropriate ministry. During the Rutte I government the general insurance model was applicable;
- Although incidental increases in the premiums payable under the Health Insurance Act [Zorgverzekeringswet] are no longer compensated by incidental easing of the tax premium burden, structural increases are.

The most important elements of the Sustainable Public Finances Bill [Wet Houdbare Overheidsfinanciën] (HOF)

The Sustainable Public Finances Bill is currently waiting to be debated by the Lower House. The bill is the interpretation of one of the commitments made by the Netherlands within the framework of the Euro-plus Pact. The bill also mirrors the requirements laid down in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union [Verdrag inzake stabiliteit, coördinatie en bestuur in de economische en monetaire unie] and will contribute to the implementation of the Council directive on the adoption of regulations for budget frameworks of the Member States. The essence of the bill is to codify European budget agreements and to determine that the State and local government bodies (local authorities, provincial authorities and water boards) make an equal effort to comply with these agreements of which the most striking use the realisation of a balanced budget in the medium term. The bill also imposes the extra obligation on the State that it should lay down the most important points of departure of the medium term budget framework in national law.

The HOF bill will enable the Netherlands to codify the main features of the trend-related budget policy. The three points of departure which are crucial for budget policy are included in the bill (see also Article 2, paragraph 2):

1. The use of fixed expenditure frameworks
2. The point of departure for automatic stabilisation on the income side of the budget
3. Budget policy based on medium-term figures and the macro-economic estimates of the relevant variables by the CPB.

The bill obliges the Netherlands to take sufficient measures when, on the basis of the economic estimates by the CPB, the expectation is that the national and European budget rules will not be complied with. The same applies when the European Commission or Council indicates that the budget policy of the Netherlands is not leading to adequate compliance with European budget rules. The bill also contains a correction mechanism which comes into operation in the event of significant deviations from the so-called 'medium term objective' (MTO) or the adjustment path in accordance with the MTO as prescribed by the European Commission.

In addition, the bill includes the obligation that all government sectors contribute to compliance with the European budget rules, including the medium term objective. After all, the income and expenditure by local government bodies are part of the EMU balance and the EMU debt. Respecting the European budget objectives is therefore a joint task for central government and local government bodies. Based on a number of European agreements, local government bodies have to be involved in the HOF bill.

In January 2013 the path for the EMU balance for the period up until 2017 was laid down in the financial agreement with the local government bodies. The financial agreement contains an ambition and a standard for the balance path of the local government bodies. The agreed ambition corresponds to the estimate by the CPB for the balance of the local government bodies, following continued implementation of the Coalition Agreement, in the period 2014-2017. The agreed standard for the EMU balance then offers local government bodies a certain margin compared to the ambition. In the event of any deviation from the ambition it is, therefore, not immediately necessary for local government bodies to take further measures.

Table 8.1

	2013	**2014**	**2015**	**2016**	**2017**
Ambition for EMU balance of other governing bodies jointly, in % GDP	-0.5	-0.3	-0.3	-0.2	-0.2
The agreed deficit standard for this period of government, in accordance with the HOF bill, in % GDP[14])	-0.5	-0.5	-0.5	(-0.4)	(-0.3)

[14] At the end of 2015 official consultations will take place to assess whether, on the basis of the realisations applicable at that time, the projected reduction is justifiable and possible in 2016 and 2017.

ANNEX Tables

The figures for 2013 and 2014 are based on the latest economic projection by the CPB (Central Economic Plan (CEP), March 2013). For 2015 and beyond the medium-term projection by the CPB dating from November 2012 (Coalition Agreement) is used because the CEP does not have a projection for this period.

Table 1a. Macro-economic prospects

	ESA code	2012 Level (€ billion)	2012 rate of change	2013 rate of change	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change
Actual GDP	B1*g	602.8	-0.9	-0.4	1.1	1.6	1.6	1.6
Nominal GDP (€ billion)	B1*g		0.1	0.0	0.0	2.5	2.5	2.5
Components of actual GDP								
Private consumption expenditure	P.3	273.6	-1.5	-1.6	0.3	0.1	0.1	0.1
Government consumption expenditure	P.3	172.4	0.5	-0.1	0.2	0.1	0.1	0.1
Gross fixed capital formation	P.51	101.1	-4.9	-2.1	2.3	2.6	2.6	2.6
Changes in inventories (Δ)	P.52+P.53	2.5	0.0	-0.2	0.1	0.0	0.0	0.0
Exports of goods and services	P.6	522.8	3.1	2.8	4.2	5.1	5.1	5.1
Imports of goods and services	P.7	469.5	2.8	2.0	4.2	4.5	4.5	4.5
Contributions to actual GDP growth								
Final domestic demand		547.1	-1.4	-1.1	0.6	0.5	0.5	0.5
Changes in inventories (Δ)	P.52+P.53	2.5	0.0	-0.2	0.1	0.0	0.0	0.0
External balance of goods and services	B.11	53.2	0.5	0.9	0.4	1.1	1.1	1.1

Table 1b. Pricing developments

	ESA code	2012 level	2012 rate of change	2013 rate of change	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change
1. GDP deflator		100	1.1	1.6	1.6	0.9	0.9	0.9
2. Private consumption deflator		100	2.4	2.7	2.1	1.8	1.8	1.8
3. HICP		100	2.8	2.8	1.7	1.5	1.5	1.5
4. Government consumption deflator		100	2.0	1.1	2.0	1.5	1.5	1.5
5. Investment deflator		100	-0.3	0.9	1.3	0.7	0.7	0.7
6. Export price deflator		100	1.5	-0.7	0.9	0.2	0.2	0.2

Table 1c. Employment market developments

	ESA code	2012	2012	2013	2014	2015	2016	2017
		level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, people (x 1,000)		8676.8	-0.2	-0.4	0.1	0.5	0.5	0.5
2. Employment, number of hours worked		6720.8	-0.5	-0.8	-0.2	0.2	0.2	0.2
3. Unemployment (% of the working population)		470.2	5.3	6.3	6.4	6.7	6.6	6.1
4. Labour productivity, people			-0.7	0.0	0.9	1.1	1.1	1.1
5. Labour productivity, number of hours worked			-0.5	0.4	1.2	1.4	1.4	1.4
6. Total wage of employees	D.1	310.4	1.2	1.1	2.4	1.6	1.6	1.6
7. Wage per employee (€)		35.8	2.2	2.2	2.7	1.3	1.3	1.3

Table 1d. Sectoral balances

% GDP	ESA code	2012	2013	2014	2015	2016	2017
1. Net credit lending/borrowing compared to the rest of the world	B.9	8.0	8.8	9.0	11.2	11.1	11.5
of which:							
- Balance of goods and services		8.8	9.5	9.5	10.8	11.0	11.3
- Balance of primary income and transfers		0.7	0.9	1.0	1.9	1.6	1.6
- Capital account		-1.5	-1.6	-1.5	-1.5	-1.5	-1.4
2. Net lending/borrowing of the private sector	B.9	11.9	12.0	12.5	13.0	12.9	13.0
3. EMU balance	EDP B.9	-4.1	-3.4	-3.0	-2.0	-1.9	-1.4
4. Statistical discrepancy							

Table 2a. General government budgetary prospects

	ESA Code	2012 Level (billion €)	2012 % GDP	2013 % GDP	2014 % GDP	2015 % GDP	2016 % GDP	2017 % GDP
Net financing balance (EDP B.9) per government sector								
1. Total government (1)	S.13	-24.4	-4.1	-3.4	-3.0	-2.0	-1.9	-1.4
2. Central government	S.1311	-19.0	-3.2	-1.7	-2.0	-0.6	-0.4	0.0
3. Provincial government	S.1312	-19.0	-3.2	-1.7	-2.0	-0.6	-0.4	0.0
4. Local government	S.1313	-2.2	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2
5. Social security funds	S.1314	-3.3	-0.5	-1.1	-1.0	-1.2	-1.2	-1.2
Total government (S13)								
6. Total income	TR	277.8	46.1	46.7	47.0	46.8	46.7	46.5
7. Total expenditure	TE[1]	301.4	50.0	49.9	50.4	48.9	48.7	48.0
1 March package				-0.1	0.4			
8. EMU balance	EDP B.9	-24.4	-4.1	-3.4	-3.0	-2.0	-1.9	-1.4
9. Interest charges	EDP D.41	11.1	1.8	1.9	1.8	2.0	2.1	2.1
10. Primary deficit		-12.4	-2.1	-1.3	-1.6	-0.1	0.1	0.6
11. One-off and other temporary measures								
A few income components								
12. Total taxes (12=12a+12b+12c)		135.6	22.5	23.4	23.2	24.6	24.8	24.9
12a. Taxes on production and import levies	D.2	68.4	11.3	12.0	12.2	11.9	11.9	12.0
12b. Current taxes on income, capital, etc.	D.5	65.8	10.9	11.1	10.8	12.4	12.6	12.8
12c. Capital levies	D.91	1.4	0.2	0.2	0.2	0.2	0.2	0.2
13. Social security charges	D.61	99.6	16.5	16.8	17.0	15.9	15.7	15.6
14. Income from capital	D.4	17.3	2.9	2.4	2.6	2.3	2.1	2.0
15. Other		25.3	4.2	4.2	4.2	4.1	4.0	3.9
16=6. Total income	TR	277.8	46.1	46.7	47.0	46.8	46.7	46.5
Tax burden (D.2+D.5+D.61+D.91-D.995)		233.7	38.8	39.9	40.1	40.3	40.4	40.5
A few expenditure components								
17. Total wage of the employees + intermediary consumption	D.1+P.2	106.5	17.7	17.3	16.9	16.0	15.8	15.5
17a. Total wage of employees	D.1	59.4	9.9	9.7	9.5	9.0	8.9	8.7
17b. Intermediary consumption	P.2	47.1	7.8	7.6	7.4	7.0	6.9	6.7
18. Social security benefits (18=18a+18b)		143.2	23.8	23.8	24.0	24.2	24.2	24.0
18a. Non-monetary social transfers provided by market producers	D.6311, D.63121, D.63131	70.6	11.7	11.9	12.1	11.7	11.8	11.9
18b. Other than non-monetary social transfers	D.62	72.6	12.0	12.2	12.2	12.5	12.4	12.1
19=9. Interest charges	EDP D.41	11.1	1.8	1.9	1.8	2.0	2.1	2.1
20. Subsidies	D.3	8.1	1.3	1.2	1.1	1.1	1.0	1.1
21. Gross fixed capital formation	P.51	19.3	3.2	3.1	3.2	3.0	2.9	2.8
22. Capital transfers		n/a	n/a	n/a	n/a	n/a	n/a	n/a
23. Other		13.1	2.2	1.9	1.9	2.7	2.7	2.5
24=7. Total expenditure	TE[1]	301.4	50.0	49.9	50.4	48.9	48.7	48.0
Government consumption (nominal)	P.3	172.5	28.6	28.6	28.4	27.1	27.2	27.1

Table 2b. Breakdown of income

	Year 2012	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
	Level	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1. Total income if policy unchanged	277.8	46.1	46.7	47.0	46.8	46.7	46.5
2. Total expenditure if policy unchanged	301.4	50.0	49.9	50.4	48.9	48.7	48.0

Table 2c. Amounts that have to be excluded from the expenditure ceiling

	Year 2012	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
	Level	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1. Expenditure on EU programmes which are fully compensated by income from EU funds	1.1	0.2	0.2	n/a	n/a	n/a	n/a
2. Cyclical unemployment expenditure	10.6	1.8	2.1	2.2	2.2	2.2	2.0
3. Effect of discretionary income measures	3917	0.65	1.87	0.74	0.37	0.36	0.22
4. Increase in income as mandated by law	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Table 3 Expenditure by total government according to function (on the basis of an unchanged policy)

% GDP	COFOG Code	2012	2015	2017
1. Public administration	1	10.8	9.6	9.0
2. Defence	2	1.1	1.0	1.0
3. Public order and safety	3	1.9	1.8	1.7
4. Economic affairs	4	4.4	4.2	4.2
5. Environmental protection	5	0.8	0.9	0.9
6. Housing and community amenities	6	0.9	0.9	0.9
7. Health	7	10.7	10.6	10.8
8. Recreation, culture and religion	8	1.0	1.0	1.0
9. Education	9	5.5	5.3	5.2
10. Social security	10	12.9	13.6	13.3
11. Total expenditure (=post 7=23 in Table 2)	TE[1]	50.0	48.9	48.0

Table 4. General government debt developments

% GDP	ESA Code	2012	2013	2014	2015	2016	2017
1. Gross debt		71.2	74.0	75.0	71.4	71.4	70.8
2. Change in gross debt ratio		5.7	2.6	1.0	-3.6	0.0	-0.6
Contributions to changes in gross debt							
3. Primary balance		-2.1	-1.3	-1.6	-0.1	0.1	0.6
4. Interest charges	EDP D.41	1.8	1.9	1.8	2.0	2.1	2.1
5. Stock/flow adjustment		1.8	-0.6	-2.4	-5.7	-2.0	-2.2
of which:							
- Differences between cash and accruals		-0.1	0.0	0.0	-0.1	-0.1	0.0
- Net accumulation of financial assets		2.0	0.2	-0.4	-0.3	-0.3	-0.3
of which:							
- privatisation revenues		n/a	n/a	n/a	n/a	n/a	n/a
- Denominator effect		-0.1	-0.8	-1.9	-1.7	-1.7	-1.8
Link Coalition Agreement-CEP 2015					-3.5		
Implicit interest on debt		1.9	2.0	2.3	3.0	3.3	3.5
Other relevant variables							
6. Liquid financial assets		n/a	n/a	n/a	n/a	n/a	n/a
7. Net debt (7=1-6)		n/a	n/a	n/a	n/a	n/a	n/a
8. Debt amortization (existing bonds) since the end of last year (billion euros)		34.2	28.7	31.6	48.6	13.5	36.2
9. Percentage of debt in foreign currency		5.5	n/a	n/a	n/a	n/a	n/a
10. Average term		7.2	7.4	n/a	n/a	n/a	n/a

Table 5 Cyclical developments

	ESA code	2011	2012	2013	2014	2015	2016	2017
1. Actual GDP growth		1.0	-0.9	-0.4	1.1	1.6	1.6	1.6
2. EMU balance total government	EDP B.9	-4.5	-4.1	-3.4	-3.0	-2.0	-1.9	-1.4
3. Interest charges	EDP D.41	2.0	1.8	1.9	1.8	2.0	2.1	2.1
4. One-off and other temporary measures		0.0	0.0	0.1	0.2	0	0	0
5. Potential GDP growth		0.9	0.3	0.3	0.6	0.7	0.8	0.9
Contributions to growth:								
- Employment		0.2	-0.2	-0.2	-0.1	0	0	0
- Capital		0.4	0.2	0.2	0.2	0.3	0.3	0.3
- Total factor productivity		0.3	0.3	0.3	0.4	0.5	0.5	0.6
6. Output gap (EC method)		-1.6	-2.8	-3.5	-3.0	-2.2	-1.4	-0.7
7. Cyclical budgetary component		-0.9	-1.6	-2.0	-1.7	-1.3	-0.8	-0.4
8. Balance adjusted based on economic situation (2-7)		-3.6	-2.4	-1.4	-1.2	-0.7	-1.1	-1.0
9. Primary balance adjusted on the basis of economic situation (8-3)		-2.0	-0.9	0.2	0.3	1.3	1.0	1.1
10. Structural balance (8 - 4)		-3.6	-2.4	-1.5	-1.4	-0,9	-1,1	-1,2

Table 6. Difference compared to previous update[15]

	ESA Code	2012	2013	2014	2015	2016	2017
Growth actual GDP (%)							
Update April '12		-0.75	1.25	1.5	1.5	n/a	n/a
Current update		-0.9	-0.5	1	1.6	1.6	1.6
Difference		-0.15	-1.75	-0.5	0.1	n/a	n/a
Budget deficit (% GDP)	EDP B.9						
Update April '12		4.2	3	n/a	n/a	n/a	n/a
Current update		4.1	3.4	3.0	2.0	1.9	1.4
Difference		-0.1	0.4	n/a	n/a	n/a	n/a
Public debt (% GDP)							
Update April '12		70.2	70.7	n/a	n/a	n/a	n/a
Current update		71.2	74.0	75.0	71.4	71.4	70.8
Difference		1.0	3.3	n/a	n/a	n/a	n/a

[15]In December 2012 an update of the Stability Programme was sent to the European Commission in December 2012 because, in connection with the fall of the government in April 2012, no figures could be provided for the years 2014-2015. We have chosen not to compare the figures with the update of the Stability Programme dating from December 2012, but with the previous official Stability Programme dating from April 2012. Other Member States are also comparing their current situation with that of a year ago.

Table 7. Sustainability of public finances[16]

% GDP	2010	2020	2030	2040	2050	2060
Total expenditure	51	47.2	48.5	50.3	49.9	49.4
of which: age-dependent expenditure	20.5	21.8	23.7	26	25.9	25.5
Pension expenditure	6.9	7.4	8	8.9	8.7	8.5
Social security expenditure	12.6	13.1	13.8	14.6	14.4	14.2
Old age and early retirement pensions	4.9	5.7	6.3	7.2	7	6.8
Other pension benefits (invalidity, orphans)	2	1.7	1.7	1.7	1.7	1.7
Occupational pensions (government)						
Healthcare (cure)	6.3	7.5	8.2	8.6	8.5	8.4
Long-term healthcare (care)	3.8	3.5	4.3	5.1	5.4	5.4
Education	5.5	5.1	5	5.1	5.1	5.0
Other age-dependent expenditure	0	0	0	0	0	0
Interest expenditure	1.9	2.1	1.6	1.1	0.8	0.5
Total income	45.9	47.8	49.3	50.4	50.2	49.8
of which: property income	3.1	2.5	1.5	1.2	1	0.9
of which*:* pension contributions (or social security premiums)	3.5	3.5	3.5	3.5	3.5	3.5
Pension fund reserves	157	162	189	200	198	199
of which: consolidated public pension fund reserves	157	162	189	200	198	199
Systematic pension reforms						
Social security premiums reformed in line with the obligatory private system	0	0	0	0	0	0
Pension expenditure paid by the obligatory private system	5	5.2	5.7	6.6	6.9	6.9
Assumptions						
Labour productivity growth	2	1.5	1.5	1.5	1.5	1.5
Actual GDP growth	1.6	1.5	1	1.6	1.6	1.5
Participation rate men (15-64)	80.5	81.4	81.4	81.6	81.7	81.7
Participation rate women (15-64)	61.4	64.4	65.4	67.1	68.1	68.1
Total participation rate (15-64)	71	72.9	73.4	74.3	75	75
Unemployment	5.5	3.4	3.4	3.4	3.4	3.4
Population aged 65+ compared to population	15.7	19.1	20.5	22.2	22	21.3

Table 7a. Contingent liabilities

in billions of euros	2012
State guarantees	257.6
of which: in connection with (international) financial stability	
State guarantee facility for interbank loans	18.2
EU balance of payments assistance	2.3
EFSF	97.8
EFSM	2.8
ESM	35.4
DNB participation in IMF capital	47.3
Participation in ABN AMRO	1.0

[16] These projections are taken from national sources (the CPB) and must be viewed in the context of the EC Fiscal Sustainability Report.

Table 8. external assumptions

	2012	2013	2014	2015	2016	2017
Short-term interest rate (annual average)	0.6	0.3	0.6	1.3	1.7	2.2
Long-term interest rate (annual average)	1.9	2.0	2.3	3.0	3.3	3.5
USD/€ exchange rate (annual average)	1.3	1.3	1.3	1.25	1.25	1.25
Nominal effective exchange rate	n/a	n/a	n/a	n/a	n/a	n/a
World GDP growth	3.0	3.3	3.8	4.7	n/a	n/a
GDP growth in the EU	-0.5	-0.5	1.0	1.6	1.6	1.6
Global GDP growth excl. the EU	4.1	4.3	4.2	n/a	n/a	n/a
Growth of relevant foreign markets	0.5	2.7	4.9	6.2	6.2	6.2
World import volume, excl. the EU	4.7	5.8	7.0	n/a	n/a	n/a
Oil price (Brent, USD per barrel)	111.7	109.4	109.4	99	101	103