COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 7.10.2009
SEC(2009) 1273 final

REPORT FROM THE COMMISSION

The Netherlands

Report prepared in accordance with Article 104(3) of the Treaty

1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn has brought about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

The Stability and Growth Pact requires the Commission to prepare a report such as the present one whenever an actual or planned deficit of a Member State exceeds the 3% of GDP reference value. This report, which represents the first step in the "excessive deficit procedure" (EDP), analyses the reasons for the breach of the reference value with due regard to the economic background and all other relevant factors. The amendments to the Stability and Growth Pact in 2005 aimed specifically at ensuring that in particular the economic and budgetary background was fully taken into account in all steps in the EDP. This means for instance that, if an "excessive deficit" is deemed to exist, adequate attention needs to be paid to the economic background and outlook when making recommendations on the pace of the correction. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

2. LEGAL BACKGROUND

This report, which assesses recent and current budgetary developments in the Netherlands and reviews the short- and medium-term prospects in the light of overall economic conditions and policy action taken by the government, has been prepared according to Article 104(3) of the Treaty.

Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference

[1] OJ L 209, 2.8.1997, p. 6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

Since the start of stage III of economic and monetary union, an EDP for the Netherlands was initiated in April 2004 by the Commission with the adoption of a report under Article 104(3)[2] in view of a deficit of 3.2% of GDP in 2003, i.e. above the reference value. In June 2004, following the recommendations from the Commission, the Council decided that an excessive deficit existed in the Netherlands and addressed a recommendation to the Netherlands with a view to bringing the excessive deficit situation to an end, in accordance with Articles 104(6) and 104(7) of the Treaty. This Recommendation established a deadline of 2005 at the latest for the correction of the excessive deficit. In June 2005, following an overall assessment which showed that the correction of the excessive deficit situation in the Netherlands was completed in 2004, the Council decided to abrogate its decision on the existence of an excessive deficit under Article 104(12).

Table 1: General government deficit and debt [a]

	2004	2005	2006[b]	2007[b]	2008[b]	2009		2010	
						COM	April Notif.	COM	April Notif.
General government balance	-1.7	-0.3	0.6	0.3	1.0	-3.4	-3.3	-6.1	n.a.
General government gross debt	52.4	51.8	47.4	45.6	58.2	57.0	57.1	63.1	n.a.

Note:
[a] In percent of GDP.
[b] Statistics Netherlands revised the deficit figures for 2006, 2007 and 2008 to 0.5%, 0.2% and 0.7% of GDP respectively, also the debt figure for 2007 was changed to 45.5% of GDP. These changes have not yet been validated by Eurostat.

Source: April 2009 EDP notification, Eurostat and Commission services' spring 2009 forecasts.

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

According to data notified by the authorities in April 2009[3] the general government deficit in the Netherlands is planned to reach 3.3% of GDP in 2009, thus exceeding the 3% of GDP reference value. General government gross debt would increase to 57% of GDP in 2009, and thus remain below the 60% of GDP reference value.

The planned figure for the 2009 deficit provides *prima facie* evidence on the existence of an excessive deficit in the Netherlands in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore decided to initiate the excessive deficit procedure for the Netherlands with the adoption of this report. Section 2 of the report examines the deficit criterion and Section 3 the debt developments. Section 4 deals with public investment and other relevant factors. This document takes into account the Commission services' spring 2009 forecasts, released on 4 May, and their evaluation of subsequent developments, in particular the Commission services' September 2009 interim forecast, released on 14 September.

3. DEFICIT CRITERION

According to the April 2009 EDP notification, the general government deficit is planned to reach 3.3% of GDP in 2009.

Although the planned deficit as notified is close to the 3% of GDP Treaty reference value and similar to the Commission services' spring 2009 forecast that projected a deficit of 3.4% of GDP for 2009, based on the authorities 2010 budget memorandum published on 15 September showing a deficit of 4.8% of GDP it is expected that the actual outcome will not be close to the threshold. The higher excess is essentially related to a worse macroeconomic situation than expected in the notification.

The planned excess over the 3% of GDP reference value is exceptional. In particular, it results, among other things, from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. In the Commission services' 2009 spring forecast a negative annual GDP volume growth of 3.5% in 2009 and 0.4% in 2010 is expected. This means that annual volume GDP growth will come out far below potential in both 2009 and 2010 that is projected at 1.2% and 0.9% respectively. As a result, the output gap is foreseen to deteriorate sharply, from a positive figure of 2.7% in 2008 to negative figures of 2.0% and 3.3% in 2009 and 2010, respectively. The recent Commission services' 2009 September interim forecast expects annual GDP growth to amount to -4.5% of GDP in 2009, which points to a considerably worse outcome than the -3.5% GDP projected in the spring forecast on account of a much worse-than-expected first quarter, mainly regarding private consumption.

3 According to Council Regulation (EC) No 479/2009 (previously (EC) No. 3605/93), Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of the Netherlands can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/NL_2009-04.pdf

Table 2: Macroeconomic and budgetary developments [a]

	2004	2005	2006	2007	2008	2009		2010	
						COM	NL BM	COM	NL BM
Real GDP (% change)	2.2	2.0	3.4	3.4	2.1	-3.5	-4 ¾	-0.4	0.0
Potential GDP (% change)	1.6	1.6	1.7	1.7	1.8	1.2	n.a.	0.9	n.a.
Output gap (% of potential GDP)	-1.4	-0.9	0.7	2.4	2.7	-2.0	n.a.	-3.3	n.a.
General government balance	-1.7	-0.3	0.6	0.3	1.0	-3.4	-4.8	-6.1	-6.3
Primary balance	0.7	2.1	2.8	2.5	3.2	-0.8	n.a.	-3.4	n.a.
One-off and other temporary measures	0.2	0.0	0.0	0.0	0.0	0.3	n.a.	0.0	n.a.
Government gross fixed capital formation	3.2	3.3	3.3	3.3	3.3	3.5	n.a.	3.6	n.a.
Cyclically-adjusted balance	-0.9	0.2	0.2	-1.0	-0.5	-2.3	n.a.	-4.3	n.a.
Cyclically-adjusted primary balance	1.5	2.6	2.4	1.2	1.7	0.3	n.a.	-1.6	n.a.
Structural balance [b]	-1.1	0.2	0.2	-1.0	-0.5	-2.6	-3.5	-4.3	-4.0
Structural primary balance	1.3	2.6	2.4	1.2	1.7	0.0	n.a.	-1.6	n.a.

Notes:
[a] In percent of GDP unless specified otherwise.
[b] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source: Eurostat and Commission services' spring 2009 forecasts; the Dutch government's 2010 budget memorandum (BM) of September 2009.

The planned excess over the 3% of GDP reference value is not temporary in the sense of the Treaty and the Stability and Growth Pact. According to the Commission services' spring 2009 forecast, the general government balance is expected to deteriorate from -3.4% of GDP in 2009 to -6.1% of GDP in 2010. For 2010, the forecast is based on the usual no policy change assumption. The projected deterioration in 2010 notably stems from a lagged negative cyclical impact on revenue and expenditure in large part related to corporate profits and unemployment, according to the Commission services' September 2009 interim forecast annual GDP growth is expected to deteriorate further to -4.5% in 2009.

In March 2009, the Dutch government published a budget deficit projection for 2010 of 5.7% of GDP, which is 0.4 percentage point better than the spring forecast. As the macroeconomic scenario underlying this figure is comparable to the macro economic scenario in the Commission services' spring 2009 forecast, the main difference comes from the treatment of the planned consolidation efforts in 2010. As these measures were not specified by the time of the spring forecast, they could not be taken into account under the no policy change assumption. The budget memorandum 2010 now foresees a deficit of -6.3% of GDP in 2010, which is related to a worse than expected economic outlook for 2009.

In sum, although the planned 2009 deficit as reported in the April notification is close to the 3% of GDP reference value, the 2010 budget memorandum expects that it will amount to 4.8% of GDP and therefore will not be close to the threshold. The planned excess over 3% of GDP can be considered exceptional, but not temporary in the sense of the Treaty and the Stability and Growth Pact. This analysis suggests that the deficit criterion in the Treaty is not fulfilled.

4. DEBT DEVELOPMENTS

During the period 2004-2007, the general government gross debt ratio declined by about 6½% pp. to 45¾% in 2007, well below the 60% Treaty reference value. This decrease was mainly concentrated in 2006 and 2007 when high economic growth was combined with budget surpluses. In other words, the government debt ratio was mainly positively affected by both the primary balance and strong real GDP growth, as can be seen in Table 3.

In 2008, general government gross debt increased sharply to 58.2% of GDP despite a 1% budget surplus. This increase was caused by the government operations to stabilise the financial markets (see section 5.4), leading to a massive stock-flow adjustment of around 15% of GDP, and to a total stock-flow adjustment of 15.7% of GDP in 2008.

In spite of the expected budget deficit and the negative nominal GDP growth, according to the notification by the Dutch government, the debt ratio is planned to reach 57.1% of GDP in 2009, below the 60% reference value. The Commission services' spring 2009 forecast expects the debt ratio to decline in 2009 to 57% of GDP coming from 58.2% in 2008. Despite the relatively large snowball effect of 3.8% in 2009, the debt ratio is expected to decrease mainly as a result of the repayment of a short term loan of €34 billion (5.9% of GDP), which was issued to a financial institution (Fortis Bank Nederland) as part of a rescue package in 2008. However, given the risks to the macro scenario, notably reflected in the most recent interim forecast, and to the deficit, there are also risks to the debt development. The 2010 budget memorandum now foresees that the general government debt will amount to 59.7% of GDP in 2009.

According to the Commission services' spring 2009 forecast the general government gross debt will increase by about 5% to 63.1% of GDP in 2010, thus exceeding 60% Treaty reference value. This increase stems in large part from an important expected deterioration of the primary balance.

The government operations to stabilise the financial markets contain both negative and positive risks for the debt ratio in 2010. The possible activation of sizeable guarantees could further increase the debt ratio, whereas early repayments of government support by financial institutions could substantially lower the debt ratio.

Table 3: Debt dynamics [a]

	2003	2004	2005	2006	2007	2008	2009	2010
Government gross debt ratio	52.0	52.4	51.8	47.4	45.6	58.2	57.0	63.1
Change in debt ratio [b] (1 = 2+3+4)	1.5	0.4	-0.6	-4.4	-1.8	12.6	-1.3	6.1
Contributions:								
• Primary balance (2)	0.6	-0.7	-2.1	-2.8	-2.6	-3.2	0.8	3.4
• "Snowball" effect (3)	1.4	1.0	0.1	-0.3	0.0	0.1	3.8	2.4
of which:								
Interest expenditure	2.6	2.5	2.4	2.2	2.2	2.2	2.7	2.7
Real GDP growth	-0.2	-1.1	-1.0	-1.7	-1.6	-0.9	2.0	0.2
Inflation (GDP deflator)	-1.1	-0.4	-1.2	-0.9	-0.7	-1.2	-0.9	-0.6
• Stock-flow adjustment (4)	-0.4	0.2	1.4	-1.3	0.8	15.7	-5.8	0.3

Notes:
[a] In percent of GDP.
[b] The change in the gross debt ratio can be decomposed as follows:

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

where t is a time subscript; D, PD, Y and SF are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth. The term in parentheses represents the "snow-ball" effect, measuring the combined effect of interest expenditure and economic growth on the debt ratio.
Source: Eurostat and Commission services' spring 2009 forecast.

5. RELEVANT FACTORS

Article 104(3) of the Treaty provides that the Commission report "shall also take into account whether the government deficit exceeds government investment expenditure and take into account other relevant factors including the medium-term economic and budgetary position of the Member State". These factors are further clarified in Article 2(3) of Council Regulation (EC) No 1467/97, which also specifies that "any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council" need to be given due consideration.

In view of the above provisions, the following four subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position (including public investment); (3) other factors put forward by the Member State; and (4) other factors considered relevant by the Commission.

5.1. Medium-term economic position

Cyclical conditions and potential growth. After having recorded above-potential growth rates over the period 2004-2007, with real GDP growth averaging 2.6% compared to an average potential growth of 1.7%, the Dutch economy slowed down in 2008, posting a growth rate of 2.1%. It is projected to experience a period of negative economic growth until 2010. The Commission services' spring 2009 forecast projects headline GDP growth at -3.5% in 2009 and -0.4% in 2010. In response to this, the output gap would sharply deteriorate from around +2.7 in 2008 to -3.3 in 2010, which is consistent with the severe economic downturn in the context of the financial crisis. According to the latest estimates, potential growth is projected to weaken from 1.8% in 2008 and to 1.2% in 2009 and 0.9% in 2010, mainly reflecting slower capital accumulation following the large drop in investment during the crisis. As indicated above, the Commission services' September 2009 interim forecast expects that annual GDP growth will turn out even worse than the -3.5% GDP growth foreseen in the spring forecast and will amount to -4.5% of GDP.

Recent structural reforms. In line with the priorities put forward in the Dutch national reform programme (including the latest 2008 implementation report) and in the context of the Lisbon strategy for growth and jobs, the government implemented a number of structural reforms. First, in order to reduce labour shedding and to ease the transition in the labour market, mobility centres were set up based on public-private partnerships. This measure is also in line with the development of an integrated flexicurity approach. Furthermore, in order to stimulate R&D and innovation, multiple measures have been taken. In 2007, for example, the Netherlands created an interdepartmental project directorate with a view to building an integrated approach towards strengthening research and innovation capacity. In the coming years further measures have been foreseen, like an increase in innovation vouchers and in the tax deduction of R&D expenses, as well as increased spending in higher education. The budgetary impact of these measures is assessed to be very limited however (approximately 0.1% of GDP, starting from 2009). With a view to supporting labour supply the government also lowered social contributions for employees from 2009 onwards, which has an expected annual budgetary cost of 0.3% of GDP.

5.2. Medium-term budgetary position

Structural deficit and fiscal consolidation in good times. During the period 2004-2008, the Dutch economy was characterised by good economic times, as indicated by above potential growth. In general, the good economic times were used for budgetary consolidation. The structural balance improved from -1.9% in 2003 to 0.2% of GDP in 2006. In 2007, however, despite good economic times indicated by a high economic growth and an improvement in the output gap of 0.7% of GDP to 2.3% of GDP, the fiscal stance was eased and the structural surplus of the previous years turned into a deficit of 1.0% of GDP, remaining within the medium-term budgetary objective (MTO) range, defined as a structural deficit ranging from -0.5% to -1.0% of GDP. In 2008, the structural deficit improved again and came out at -0.5% of GDP. According to the Commission services' spring 2009 forecast, the fiscal stance is expected to deteriorate in 2009 and 2010 with the structural balance projected to decrease to -2.6% of GDP in 2009 and -4.3% of GDP in 2010. Automatic stabilisers have been working fully on both the expenditure and the revenue side and are, according to the Commission services' spring 2009 forecast, expected to have a negative impact on the general government balance of approximately 2½% of GDP in 2009 and a further ¾% of GDP in 2010. The deterioration of the structural balance was due to the measures taken in response to the crisis and also to lower gas revenue. The combined negative impact of both is foreseen to amount to approximately 1½% in 2009 and a further ½% of GDP in 2010 At the same time the output gap would swing around by 6% of GDP to come out at -3.3% in 2010, indicating that the Netherlands will be in bad economic times in 2009 and 2010.

Public investment. The general government gross fixed capital formation continuously exceeded the general government balance since 2004. The level of the general government gross fixed capital as percentage of GDP has been fairly stable at around 3¼% of GDP. According to the Commission services' spring 2009 forecast, this investment ratio is expected to increase slightly, mainly due to negative GDP growth, to 3.5% of GDP in 2009, which is still somewhat higher than the projected deficit of 3.4% of GDP. For 2010, the general government gross fixed capital formation should come out lower than the general government balance, as a result of the deterioration of the budget deficit.

Quality of public finances. Between 2004 and 2008, the Netherlands realised a fiscal adjustment of 2.7% of GDP. During that period revenue increased by 2.1% of GDP and expenditure decreased by 0.6%. When correcting for the health care reform in 2006, which increased both revenue and expenditure by 1.5% of GDP, it becomes apparent that the consolidation mainly occurred at the expenditure side. In reaction to the excessive deficit in 2003, a strong consolidation effort led to a decrease in general government expenditure by 1.3% of GDP in 2005. The Dutch expenditure ratio is lower than the euro area average, particularly because of social benefits, which are over 5% of GDP lower than the average in the euro area. Revenues are approximately 1.7% of GDP higher than the euro area average. This is due to the natural gas revenues, which accounted for over 2% of GDP in 2008. The trend-based budgetary framework[4] has been generally considered to be efficient and effective. This is evidenced by the fact that over the period from 1994 to 2007 the average budget deficit was 1.1% of GDP, outperforming the euro area deficit average 2.3% of GDP. Furthermore, the budgetary target as set out in respective budget memorandums was only

[4] The main characteristics of the trend based fiscal framework are: (i) the use of real expenditure ceilings, which are determined once for the entire government period; (ii) automatic stabilisation on the revenue side; and (iii) the use of independent macro-economic assumptions.

missed three times since 1994. Finally, during the same period the public debt ratio was reduced by more than 30 pp. to around 45% at the end of 2007[5]. While this framework was reaffirmed by the current government, some minor adjustments were made at the start of the government term in 2007[6].

At the end of 2008, in reaction to the financial crisis, the government updated the set of fiscal rules, notably removing expenditures and non tax revenue (e.g. interest and dividend receipts) resulting from interventions in the financial sector from the expenditure ceiling[7]. In March 2009, the government also decided that the cyclically sensitive unemployment benefits will be removed from under the expenditure ceilings. This measure prevented that pro-cyclical budget cuts had to be made as a result of increasing unemployment. It also resulted in a strengthening of automatic stabilisers. This measure is temporary but it will need to be clarified at what level this item will be reintegrated under the expenditure ceiling.

Long-term sustainability of public finances. In its opinion of 10 March 2009 on the November 2008 update of the stability programme the Council assessed the long-term sustainability of the Netherlands' public finances. In particular the Council was of the opinion that the long-term budgetary impact of ageing is higher in the Netherlands than the EU average. The projected future rise of tax revenues as a share of GDP, due to the deferred taxation of private pensions, would partly compensate the increase in public expenditure over the long term. The budgetary position in 2008 as estimated in the programme, which is better than the starting position of the previous programme, contributes to offsetting the projected long-term budgetary impact of an ageing population but is not sufficient to fully cover future spending pressures. Higher primary surpluses over the medium term, and implementing reform measures that curb the projected increase in age-related expenditure would contribute to reducing the medium[8]risks to the sustainability of public finances. In the supplementary coalition agreement of March 2009 the Dutch government announced efforts to improve the sustainability gap of public finances by 1.8% of GDP, including through (1) a consolidation effort made in 2011, (2) budgets cuts in health care, (3) reform in home ownership taxation and (4) an increase in the pension age from 65 to 67[9]. The risks from financial sector stabilisation schemes (e.g. recapitalisation, guarantees) put in place by the Netherlands could have a negative impact on the long-term sustainability of public finances, primarily via their impact on government debt, if the costs are not fully recouped in the future.

5.3. Other factors put forward by the Member State

In a letter of 24 August 2009, the authorities of the Netherlands listed some relevant factors in accordance with Article 2(3) of Council Regulation (EC) No 1467/97. The analysis presented above and below broadly covers the items put forward by the authorities.

---

5 Thereafter it increased sharply to 57% in 2008, due to the government operations to stabilise the financial markets.

6 For a description of these measures, see the Macro-Fiscal assessment of the Stability Programme of the Netherlands (Update of November 2007), Section 6.

7 Expenditure ceilings in the Netherlands consist of expenditure and non-tax revenues.

8 Since the submission of the stability/convergence programme, risks to the long-term sustainability may have changed in view of the worsened economic and budgetary situation. The new assessment will be published in the upcoming report on the long-term sustainability of public finances in the European Union.

9 The social partners, gathered in the Social Economic Council, are invited to come up with an alternative before 1 October 2009 under the strict condition that this alternative has to improve the sustainability of public finances by the same amount.

5.4 Other factors considered relevant by the Commission

As a response to the economic crisis, the Dutch government adopted in total three recovery packages. The first two recovery packages at the end of 2008 and the beginning of 2009 amount to ½% of GDP in both 2009 and 2010. In light of the economic downturn the Dutch government adopted a third stimulus package in March 2009, roughly doubling the size of the total of the two previous packages leading to a total stimulus of around 2%. The measures of the three packages are broadly in line with the EERP, the crisis measures are generally well timed as they are planned for both 2009 and 2010. They are also well targeted, as they are aimed at the areas most affected by the crisis, focusing on household purchasing power, private and public investment, employment protection, increasing (vocational) training budgets and support to credit-constrained companies. While most of the instruments are of temporary nature, some of them (lowering of social contributions and the abolition of the plane ticket tax) will be permanent. The combination of expenditure increase and tax reduction measures is expected to have a positive impact on short-term growth.

To stabilise the financial system, the Dutch government adopted a number of measures. First, it increased the amount covered by the deposit guarantee scheme to €100 000. Second, a credit guarantee scheme amounting to €200 billion (33% of GDP) for medium-term debt instruments by banks was introduced. This scheme is aimed at improving their access to finance. At the end of August 2009, approximately €43.1 billion (7.4% of GDP) of this facility had been used. Third, an initial amount of €20 billion (3.3% of GDP) was made available for the recapitalisation of financial institutions. Currently, almost €14 billion (2.4% of GDP) of this fund is used. Finally, the government nationalised a major bank (the Dutch parts of Fortis including Fortis' share in ABN AMRO), and provided assistance to large financial institutions in the form of an illiquid asset back-up facility (to ING) and a capital relief instrument and mandatory convertible notes (for ABN AMRO). The back-up facility is a specific type of guarantee with respect to the securitised mortgage portfolio of this institution, which amounts to about €21 billion (3.5% of GDP). The Dutch state shares 80% of the profits and losses resulting from this portfolio. The capital relief instrument for ABN AMRO implies a guarantee for its Dutch mortgage portfolio and amounts to approximately € 33 billion (5.7% of GDP). The Dutch state shares in 95% of the losses resulting from this portfolio, after a yearly first loss of ABN AMRO. The measures involving guarantees pose a significant indirect risk for the budget, if these are extensively called upon. The institutions nevertheless pay a fee in return for the financial support.

In its opinion of 10 March 2009 on the most recent update of the stability programme, the Council considered that the Netherlands had a sound starting budgetary position, but that due to the projected sharp economic downturn the government balance would enter again negative territory, after several years in surplus. The government gross debt ratio had increased significantly, as a result of measures taken to support the financial sector. There were important downward risks to the budgetary targets in the programme from 2009 onwards, largely due to the underlying markedly favourable economic scenario, which was already evidenced by more recent data at that time[10].

[10] The National Bureau for Economic Policy Analysis (CPB) published on 17 February 2009 a forecast projecting a deterioration of economic growth to -3.5% in 2009 and -0.25% in 2010 and of the government balance to -2.9% of GDP in 2009 and -5.4% of GDP in 2010. This forecast was much worse than the Commission services' January 2009 interim forecast, which had projected a GDP growth of -2.0% in 2009 and 0.2% in 2010 and a deficit of -1.4% of GDP and -2.7% of GDP in 2009 and 2010, respectively.

The Council, therefore, 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 most recent projections, and subsequently to move towards its medium term objective starting in 2011.

5. CONCLUSIONS

According to the notification of 1 April, the general government deficit in the Netherlands is planned to reach 3.3% of GDP in 2009, which would be above but close to the 3% of GDP reference value. However, according to recent information including the forecast contained in the government's 2010 budget memorandum published in September 2009, the deficit is not expected to be close to 3% of GDP. The planned excess over the reference value can be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. However, it cannot be considered temporary. This suggests that the deficit criterion in the Treaty is not fulfilled.

General government gross debt remains below the 60% of GDP reference value in 2009, but is projected to be above this value at 63.1% of GDP in 2010 according to the Commission services' spring 2009 forecast.

In line with the Treaty, this report has also examined "relevant factors", which, according to the Stability and Growth Pact, can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the double condition - that the deficit remains close to the reference value and that its excess over the reference value is temporary - is fully met. Considered on their own merit, the relevant factors in the current case on balance seem to be relatively favourable.

The existence of a severe economic downturn, with public finance implications, increases the need to undertake enhanced surveillance under the EDP.