Ministerie van Financiën

Stability Programme of the Netherlands

December 2008 Addendum

1. Introduction

The European Council of 11 and 12 December agreed on a European Economic Recovery Plan. This European Economic Recovery plan is based on an effort equivalent in total to around 1,5% of European Union GDP. The effort should be carried out by individual member states as well as at the level of the Union.

In the Communication from the Commission to the European Council titled "A European Economic Recovery Plan" (COM(2008) 800, November 26), the Commission has requested Member States putting in place counter-cyclical measures to submit an updated Stability (or Convergence) Programme by the end of this year. In line with this request, this addendum will spell out measures that have been taken in both the financial and the real sector of the economy since September 2008. Furthermore, the latest macroeconomic projections as provided by the CPB Netherlands Bureau for Economic Policy Analysis will be shown, in order to assess consistency with a prudent medium-term fiscal strategy.

More specifically, this addendum will contain the following elements:

- An overview of recent government interventions in the financial sector
- An overview of the active (fiscal) stimuli provided by the government and an overview of the budgetary impact of the free working of automatic stabilisers
- New macroeconomic projections stemming from December 8th

It must be noted explicitly that this addendum is by no means meant to be exhaustive as far as the Dutch government response to the financial crisis is concerned. Currently, the national debate on this issue is still far from concluded and rapidly evolving from day to day. Therefore, it cannot be excluded that, if new information becomes available related to changing circumstances, the Dutch government will announce additional measures in the future.

Thereby, given the fact that the Netherlands has already submitted an exhaustive update of the Stability Programme on November 28th, this addendum will limit itself to the provision of updated macroeconomic figures solely on the relevant variables that have altered since the submitted update. Also, it must be clarified that budgetary projections are not endorsed by The Ministry of Finance, as they are of a technical nature. New projections will become available in April/ May.

2. Government interventions in the financial sector

Recently, the Dutch government undertook several transactions in order to keep the financial markets healthy and stable. These transactions influence the budget balance, the gross debt ratio or both. This chapter will give a brief overview of the transactions and their consequences on the gross debt ratio and budget balance. Table 1 gives a summary of the related transactions.

In general terms there are three types of transactions. First, there are direct financial transactions, for instance the nationalisation of Fortis. These transactions are not relevant for the budget balance, but are relevant for the gross debt ratio. Second there are interest payments and dividends arising from the financial transactions. These are relevant for both the budget balance and the gross debt ratio. Finally the government agreed on guarantee schemes, for instance on the expansion of the deposit guarantee scheme, to ensure a stable financial system. Possible payments arising from these guarantees will be relevant for the budget balance and gross debt ratio.

Specifically, the following financial transactions related to the financial crisis occurred in the months of October and November 2008. A financial transaction of 16.8 billion euro / 2.8% GDP occurred due to the nationalisation of Fortis Bank. The subsequent refinancing by the State of the short term bridging loans of Fortis amounted up to 50 billion euro / 8.4% GDP. Furthermore, the capital position of two banks (ING and SNS Reaal) and one insurance company (Aegon) have been strengthened by the state. In return the state received securities. The amounts involved are as follows: ING 10 billion euro / 1.7% GDP, Aegon 3 billion euro / 0.5% GDP and SNS Reaal 0,75 billion euro / 0,1% GDP. Also, the Netherlands will prefinance the obligations of the Icelandic deposit guarantee system to deposit account holders of the Netherlands. Exact amounts are not yet determined.

As of 23 October 2008 banks can make use of the 200 billion euro Credit Guarantee Scheme for the issuance of medium term debt instruments by banks. Two financial institutions – Leaseplan and NIBC – applied for this facility until now.

As a result of the financial crisis the government debt 2008 has been adjusted upward by approximately 15% GDP. In the Budget Memorandum 2009, gross debt in 2008 was projected at 42.1%. The actual forecast of the 2008 government debt in the Autumn Forecast shows a debt of approximately 57% GDP. It is important to notice that measured in net terms the net debt / net worth of the central government did not change because the additional debt is matched by additional financial assets.

The table below shows the budgetary impact, when available, of the measures described above, divided into the three types of transactions.

Table 1: Budgetary effects of measures in the financial markets (x million euro)

A. Financial transactions	**2008**	**2009**
1. Participation Fortis/ AA	16.800	-
2. Bridging loan Fortis	50.000	NA
3. Prefinance Iceland	NA	NA
4. Capital reinforcement ING	10.000	-
5. Capital reinforcement Aegon	3.000	-
6. Capital reinforcement SNS REAAL	750	-
7. Other possible capital reinforcements		
(out of 20 billion reserve)	NA	NA
Subtotal Financial transactions	*80.550*	*NA*
B. Interest- and dividendstreams		
8. Interest on government debt	450	2.550
9. Interest receipts and bridging loans Fortis	-500	-1.500
10. Dividend Fortis/ AA	NA	NA
11. Coupon payment ING	-	-425 + NA
12. Coupon payment Aegon	-	-124 + NA
13. Coupon payment SNS REAAL	-	-32 + NA
14. Interest receipts of prefinance Iceland	-	-
Subtotal Interest- and dividendstreams	*-50*	*469*
C. Guarantee loans		
15. Premium receipts on the basis of guarantees on interbank loans	NA	NA
16. Guarantee scheme Leaseplan and NIBC	2 * 1.600	2 * 1.600
17. Payments on behalf of interbank loans	NA	NA
18. Possible payments deposit guarantee system	NA	NA
Subtotal Guarantee loans	*NA*	*NA*

Source: Autumn Report 2008

3. Overview of fiscal stimulus and automatic stabilizers

The main priority of the government has been to support the financial sector. By helping the sector to remain stable and healthy negative impacts on the real economy are being prevented as much as possible.

However, the crisis also has an impact on the Dutch economy as is shown in the most recent macro economic forecasts (paragraph 4). The Cabinet already decided on the implementation of the package of tax reduction and the investment programme as announced last September (see Stability Programme 2008 for more details). In general terms, in the budget for 2009 the Cabinet has decided to give an additional tax reduction, with respect to the initial intention for 2009 as spelled out in the Coalition Agreement, for the amount of 2.5 billion euro. Furthermore, in the Coalition Agreement the Cabinet has decided to enlarge the environmental taxation and cut the taxation on labour in order to enhance structural growth. Thereby, the Cabinet relies on the economic benefits stemming from the supportive function of the automatic stabilisers on the revenue side which can operate freely in the Dutch budgetary system. By continuing to observe budgetary rules together with trend-based budgetary policy government policy will remain stable, predictable and reliable, even in these uncertain times.

Next to this the Dutch Cabinet has taken some more specific measures to support the real economy. Everything is made possible within the budgetary rules. This, however, is mainly supportive to the measures taken in the financial sector and current policies. As mentioned in the introduction, additional actions can not be ruled out if circumstances will change further.

Measures taken under the recovery plan

The Cabinet has adopted a number of measures to provide a short term boost to the economy. More specifically, the government has taken the following (fiscal) actions:

- Accelerated depreciation for investments: Companies have the option to depreciate investments that are effectuated between January 1st and December 1st 2009 in two years. This entails a maximum of 50% in 2009 and 50% in 2010. The arbitrary or accelerated depreciation 2009 is applicable to both corporate- and income tax liable entrepreneurs and applies to all business assets with the exception of housing, industrial buildings, earth-, road- and water infrastructure, private vehicles, immaterial fixed assets (including software) and cultural assets (including trees and livestock). The measure is thus applicable to, amongst others, trucks, delivery vans, computers, machinery and installations. In total, this measure provides a liquidity impulse to the business sector of 1.75 billion euro over 2009 and 2010.

  The net present value amounts to 0.2 billion and is financed out of resources in "interest-boxgelden" in 2009. The impact on the general government balance is 0.9 billion euro in both 2009 and 2010 (approximately 0.1-0.2% GDP).

- Tax cuts for SMEs: The remaining budget for “interest-boxgelden” in 2009 and the total budget for “interest-boxgelden” will be deployed for a lowering of the SME tariff of the second tax bracket of corporate tax from 23% to 20 % for both 2009 and 2010. This tariff applies to amounts up to 200.000 euro.

In practice, this entails that in 2009 and 2010 the first and second tax brackets are equal.

- Stimulation of the provision of credit for small and medium enterprises: In order to prevent the drying up of credit facilities to SMEs, the Cabinet has decided to expand the guarantee scheme for SMEs. This is done in three ways. First, through a broadening of the target group from businesses with a maximum of 100 employees to a ceiling of 250 employees. Second, by increasing the business guarantee credit from a maximum of 1 to 1.5 million euro. Third, by a raise of business guarantee credit for startups (applicable to SMEs running by a maximum of 5 years) from a maximum of 100.000 to 200.000 euro. In total, it is expected that an additional 80 million euro will be reserved for this guarantee scheme expansion.

- Working hours reduction: The minister of Social Affairs has the option to allow businesses to cut working hours of employees. Normally speaking, this option is resorted to when faced with calamities that go beyond commercial risk. When working hours reduction is granted, it is possible to resort to the unemployment fund for the employee in question. In view of the current exceptional circumstances, the Cabinet has decided to grant working hours reduction to businesses facing a temporary and acute fall in demand, provided that these businesses fulfil the additional terms. Businesses can apply for working hours reduction until the 1st of January 2009. In total, a cap of 200 million is put on this instrument, most of which will be deployed in 2009. When working hours reduction is granted to a total of 20.000 full time employees within a month, the arrangement is closed. After all, a massive appeal on the arrangement indicates that it does not serve its envisaged goal, but is used by businesses to delay necessary adjustments in the future.

- Accelerated public administration debit payments: The acceleration of the terms of debit payments by the government can contribute to a lower credit requirement of the business sector. To this end, the Cabinet will also invite regional and local authorities to accelerate the terms of debit payments where possible.

- Postponement submittal recovery plans of pension funds: On November 10, the Dutch Central Bank has announced that pension funds will be granted extra time, namely until April 1st 2009, to submit their recovery plans in light of the deterioration of their capital ratios. This prevents a sudden increase of pension premiums in the short run.

Measures to improve fiscal policy making in the medium term

The Cabinet has also adopted measures to improve fiscal policy in the medium term. These measures aim at ensuring long-term sustainability of public finances through a strengthening of budgetary rules and frameworks and by curbing the rise in age-related expenditure. Most of these measures were announced in the Budget Memorandum 2009 and have been amply described in the Stability Programme 2008. In particular, these measures include a bonus for people whom continue to work after they turn 62 and the option for those who continue working after 65 to postpone retirement for up to 5 years to accrue a larger pension. In addition, the Cabinet adopted a new fiscal rule in November to deal specifically with consequences of the financial crisis (see box 7.2).

Structural measures to support demand and promote the resilience of the economy

In addition to the short-term measures that provide an immediate boost to the economy, the Cabinet has also put measures in place that support demand and promote the resilience of the economy. In line with measures to improve fiscal policy making in the medium term, most of these measures were announced in the Budget Memorandum 2009 and have been amply described in the Stability Programme 2008. These measures include a continued effort to diminish the administrative burden, increasing public R&D spending and the allocation of additional resources to incentives for private R&D, measures supporting consumer purchasing power such as an exemption to the unemployment benefit premium payable by employees and the abolition of the planned VAT increase.

Furthermore, in response to the financial crisis, the Cabinet has adopted a specific measure supporting labour market transitions, namely the development of mobility centers. The present conditions on the labour market still amply allow for guidance in the job-to-job transition. Through mobility centers, the Cabinet's policy priority in assisting people from one job to another, will be strengthened and given extra capacity. Mobility centers are temporary public-private partnerships with the goal of intensifying speedy and timely assistance to job seekers and businesses in order to prevent forced lay offs as much as possible. Employees who are threatened by unemployment will then be assisted in finding a new job, or temporarily be sent on secondment at other employers, if necessary through additional education and training. The Cabinet reserves a one-off 5 million euro for setting up mobility centers.

4. Update of the macroeconomic outlook

In the Stability Programme 2008, it was explicitly acknowledged that the presented macroeconomic outlook stemming from September 2008 was outdated in light of the financial turmoil and the unfolding consequences on the real economy that materialised in the past few months.

On the December 8, the CPB Netherlands Bureau for Economic Policy Analysis presented new forecasts to account for these developments. The forecast takes into account the government's supplementary policy package from this past November. Once again, it must be clarified that budgetary projections are not endorsed by The Ministry of Finance, as they are the result of a technical exercise. New internal projections will become available in April/ May.

In the table below a summary is presented of the main macroeconomic variables. The number between brackets represents the value of the September projection (as shown in the Stability Programme 2008). As can be seen, the overall picture is that of a sharp deterioration in the economic outlook, although growth is expected to rebound in 2010.

	2008	**2009**	**2010**
Growth of relevant foreign markets	2 ¾ (3¼)	-2 ¾ (3¾)	3 (6¼)
Oil price (Brent, USD per barrel)	98 (118)	50 (125)	50 (68)
USD/€ exchange rate (annual average)	1,46 (1,55)	1,26 (1,57)	1,26 (1.45)
GDP growth	2 ¼ (2¼)	- ¾ (1¼)	1 (2)
Inflation (CPI)	2 ½ (2¾)	1 ½ (3¼)	1 (1¾)
Unemployment rate (% of labour force)	4 (4)	4 ½ (4¼)	6 ½ (3)
General government balance	1,3 (1,2)	-1,2 (1,2)	-2,4 (0.8)

There is a high degree of uncertainty surrounding this forecast, in particular for 2010. The recovery forecast for that year largely depends on the assumption that world trade will once again pick up after 2009. Recovery may take place sooner, but most likely later. The forecast also assumes that credit issuing to businesses will gradually normalise once again in the course of 2009 and 2010.