



Informatieblad

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Summary of the 2010 Budget Memorandum

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The Netherlands' Budget Memorandum traditionally looks one year ahead. But 2010 will be a special year. We hope that it will be the final year of the most serious recession since the 1930s. As the economy will still be vulnerable in 2010, the budget for that year focuses primarily on mitigating the effects of the recession and stimulating the economy. The 2010 Budget Memorandum also looks at subsequent years. Ultimately, of course, the key issues are how we are going to get through the present crisis, what shape the Netherlands will be in after the crisis and what choices we will have to make in the post-crisis period to achieve our long-term objectives.

1 Introduction

The global crisis has hit the Netherlands hard. The good economic situation from before the crisis cushioned many of the blows but the consequences are now evident in all sectors. The crisis will still be felt in 2010. Unemployment is rapidly rising to levels reminiscent of the 1980s. Businesses are seeing their turnover fall and their losses rise. Public finances, too, are quickly deteriorating. On the financial markets, meanwhile, the turbulence has subsided and there are signs of a tentative recovery. The crisis is at a turning point. According to the Netherlands Bureau for Economic Policy Analysis (CPB), the economy will neither expand nor contract in 2010. Business and consumer confidence remains fragile, however, and there is still a long and uncertain way to go. History shows that the economic consequences of a financial crisis are often more protracted and serious than those of a normal economic downturn or recession. Furthermore, many private individuals and businesses are yet to feel the full impact of the recession. It cannot be ruled out that the problems they face will cause the economy to stall again before it fully recovers.

Measures in 2010, difficult years ahead

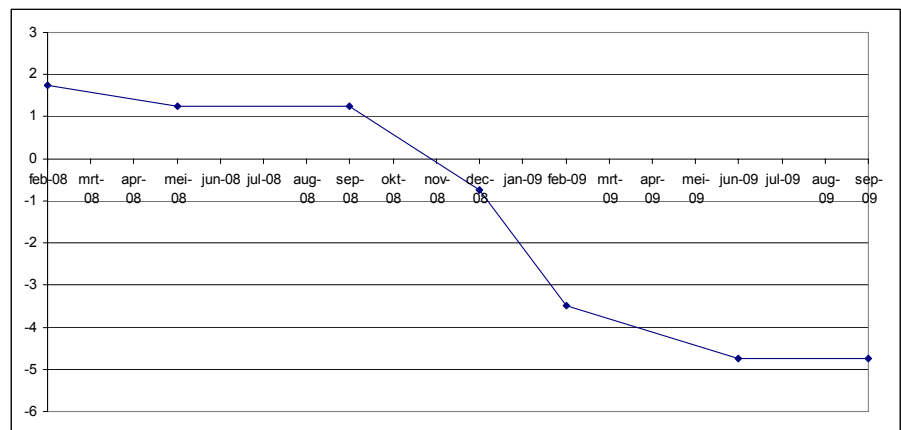
Despite the rays of hope that can now be seen, the Netherlands faces difficult years ahead, years in which hard choices will have to be made. The government will therefore work vigorously in 2010 on implementing a stimulus package that takes a forward-looking, structural approach to recovery in the economy and the labour market. International cooperation will be a critical element in this package.

2 The economy in troubled waters

Rapid reversal in the past year

At the time of the previous Budget Memorandum it was assumed that the crisis would leave Europe largely unscathed. The CPB thought the Dutch economy would grow by just over 1% in 2009. Since then, the economy has deteriorated rapidly. Many see the bankruptcy of the US bank Lehman Brothers on 15 September 2008 as a turning point. Its collapse – exactly a year ago – triggered a chain reaction in the financial system. Share prices plummeted and banks were rocked so badly that government intervention was inevitable, including in the Netherlands. The upheaval spread through the economy quickly. Banks no longer trusted each other and were barely willing to lend to each other. Business and consumer lending thus came under pressure and falling house and share prices undermined consumer and producer confidence. This led to a fall in consumption, fewer investments and a slump in world trade. The open Dutch economy was hit hard. In the fourth quarter of 2008 and the first quarter of 2009 it shrank by nearly 4%. Economic forecasts could not keep pace with the bad news. The figure below shows that they were repeatedly adjusted downwards in response to the rapid deterioration in the economic outlook.

CPB estimates of economic growth in 2009 as from February 2008



Possible structural damage

After a normal recession, the economy usually recovers quickly and growth that has been lost is soon made up in full. Experience shows, however, that a financial crisis has a longer-lasting and more profound impact on the economy than a normal recession. There is a risk of lower structural economic growth in the years ahead. It takes time, for example, to make up for the loss of employment. Businesses have to invest again to create new jobs. During this period, jobseekers may become discouraged and lose touch with the labour market. Furthermore, a key condition for recovery is that lending remains firm. This requires the banks to put their own house in order first. But even in the most favourable scenario, the banks will not return to the cheap and easy loans of before the crisis. This will depress future investments and may permanently restrain productivity growth and weaken structural economic growth.

3 Impact of the crisis on the economy and public finances

Phased impact of the financial crisis on the economy

The storm on the financial markets seems to have died down. Stock exchanges have recovered somewhat from the lows seen in March 2009, consumer and producer confidence has picked up in recent months and the American and Asian economies are showing some signs of recovery. The world economy, including the Dutch economy, will probably suffer from the economic crisis for some time to come. The negative consequences will be seen chiefly in 2010 in the form of rising unemployment and higher national debt.

The smooth operation of the banking system and appropriate lending will be the drivers of economic recovery. The economy is faltering because of the problems in the financial sector. Now that the financial markets seem to be recovering, consumer and producer confidence can increase again and lending can return to normal. The government is following the situation closely in order to facilitate and support business lending wherever necessary and possible. Lending underpins investment and consumption and thus paves the way for economic growth. Financial institutions may be recovering but unemployment is still rising sharply and public finances are deteriorating. The figure below shows the phased impact of the crisis on the economy.

Phased impact of the financial crisis on the economy

	2007				2008				2009				2010			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Confidence	↑	↑	↓	↓	↓	↓	↓	↓	↓	↑	↑	↑	↑	↑	↑	↑
Financial markets	↑	↑	↓	↓	↓	↓	↓	↓	↓	↑	↑	↑	↑	↑	↑	↑
Economic growth	↑	↑	↑	↑	↑	↓	↓	↓	↓	↓	↓	↓	↓	↑	↑	↑
Unemployment	↑	↑	↑	↑	↑	↑	↑	↓	↓	↓	↓	↓	↓	↓	↓	↓
Public finances	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↓	↓	↓	↓	↓	↓

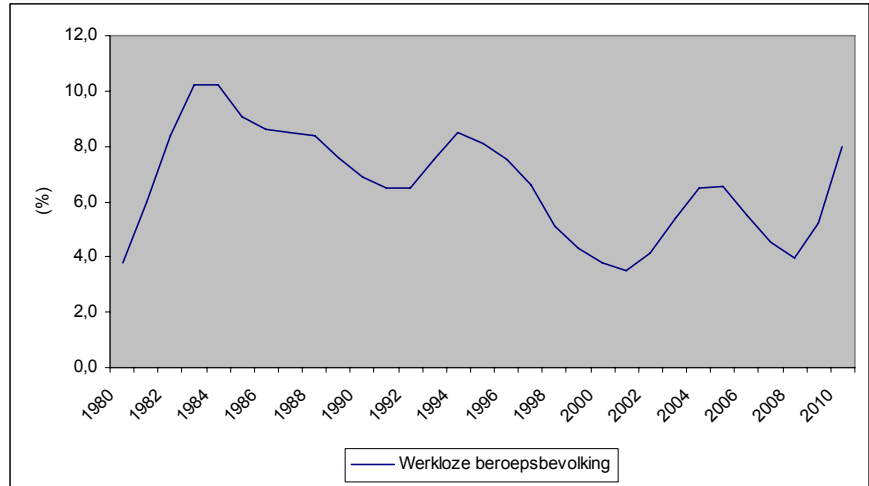
Zero growth in 2010

The CPB's most recent estimates indicate that an end to the economic freefall is now in sight. The historically sharp contraction of nearly 5% in 2009 is expected to be followed by zero growth in 2010. The International Monetary Fund (IMF) predicts that the Netherlands will probably return to growth (on an annual basis) in 2011. These forecasts are surrounded by a great deal of uncertainty, however, because it is difficult to look forward in the current circumstances.

Strong rise in unemployment

Owing to the sharp contraction in 2009 and the lack of growth in 2010, unemployment will rise strongly in the coming year (see figure below). It is expected to increase from 4% in 2008 and 5¼% in 2009 to about 8% of the labour force in 2010. This means that more than 600,000 people will be out of work in 2010. Even if the economy recovers favourably after 2010, it will take some years before unemployment is brought back down. The government and the social partners have committed themselves in a social accord to reducing long-term unemployment and supporting responsible wage developments. Such a policy approach is necessary to respond promptly to economic recovery especially when there is a revival in world trade.

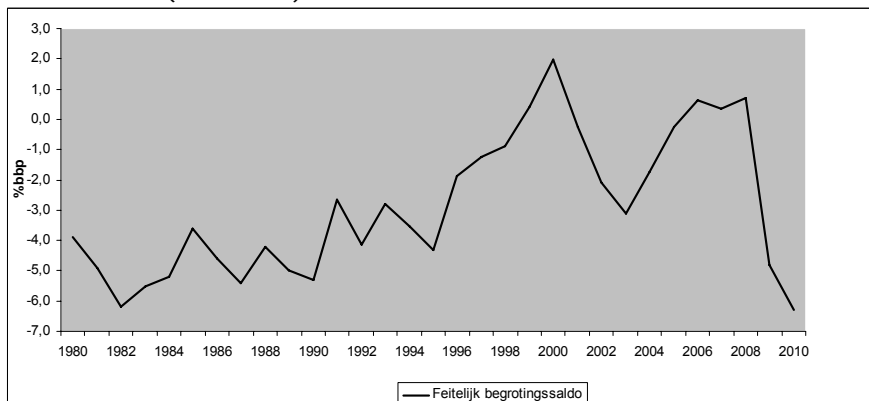
Unemployed labour force (%)



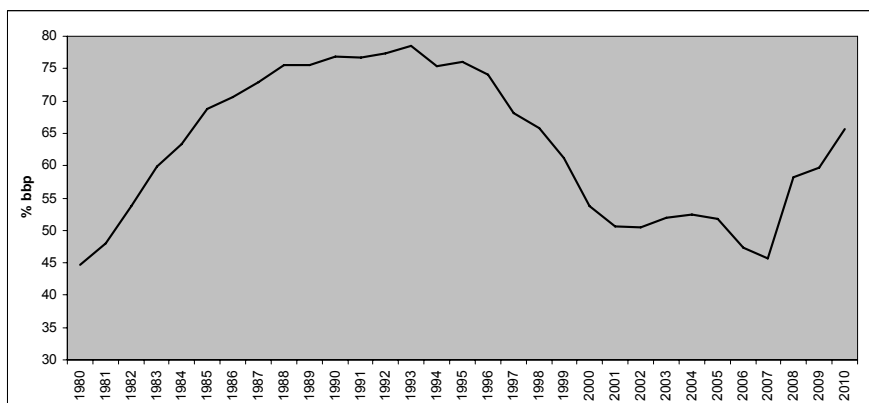
Sharp deterioration in budget balance, steady rise in national debt

Public finances have also taken a hard blow. The government has allowed the budget deficit to rise to mitigate the effects of the crisis (see figure below). The 2008 budget surplus of nearly 1% of GDP will turn into a deficit of 4.8% of GDP in 2009 and is projected to exceed 6% of GDP in 2010. The primary causes of this reversal are lower revenues due to the economic downturn on the one hand and higher expenditure (e.g. unemployment benefits) and interest payments on the increased national debt on the other.

EMU balance (% of GDP)



National debt (% of GDP)



National debt will rise to 65.7% of GDP in 2010. Nearly €50 billion of the debt is related to State interventions in the financial sector. These interventions produced financial assets, however, on which the State earns dividends and interest. National debt will decline again when these assets are sold and loans are repaid.

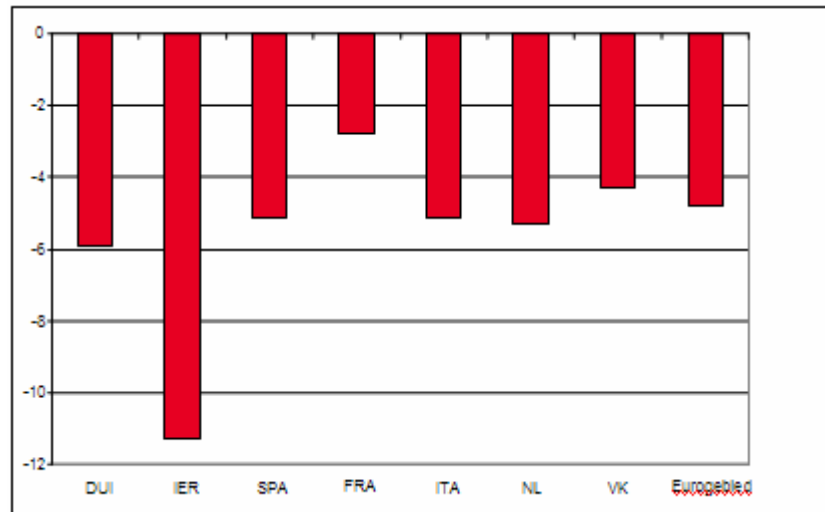
The budget deficits in 2009 and 2010 will account for nearly €70 billion of the increase in national debt. The higher debt will also be reflected in interest expenditure in the years ahead.

International comparison

The figures below show that the Netherlands is not the only country to be affected by the economic crisis. The eurozone economies will contract by 4.1% of GDP on average in 2009 and 2010. The 2008 budget surplus enabled the Netherlands to soften the worst blows of the crisis. Member states that were already in deficit did not enjoy such a cushion and the deficits in some countries are accordingly higher than that in the Netherlands. Despite the sharp increase in unemployment, the Netherlands will remain well below the eurozone average of more than 11% of the labour force in 2011.

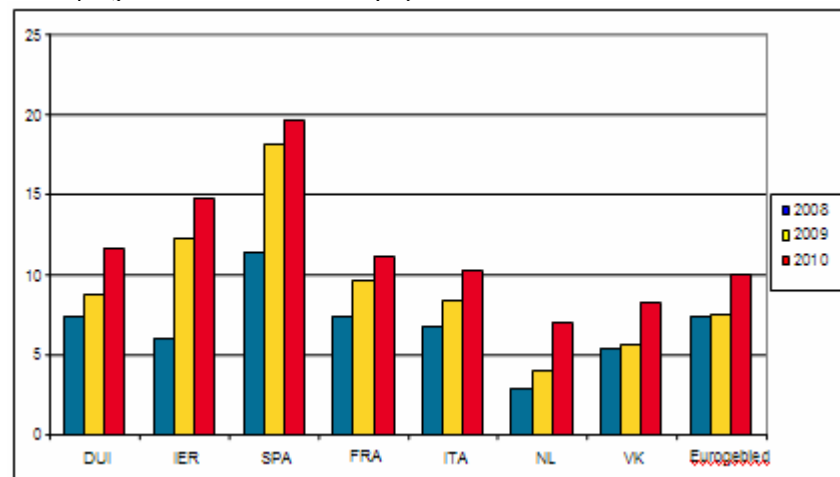
Economic growth in 2009-2010 (% of GDP)

The figure below shows the aggregate negative growth/loss of prosperity in selected countries in 2009 and 2010. Negative growth in the Netherlands will be 5%.



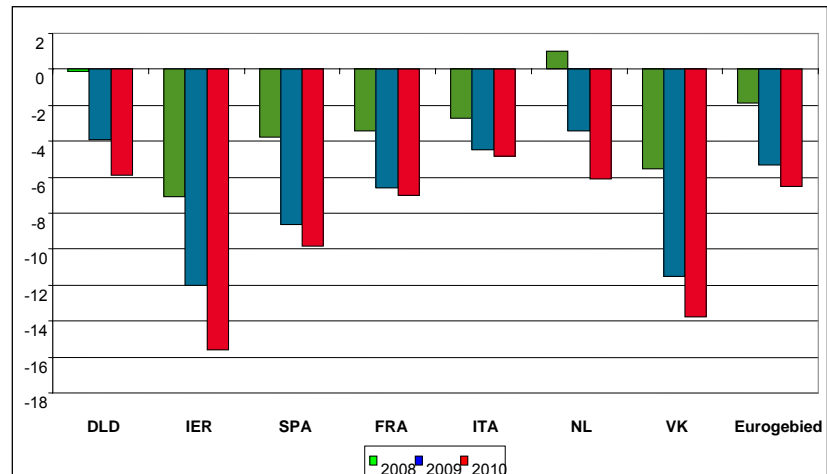
Source: OECD, June 2009

Unemployment in 2008-2010 (%)



Source: OECD, June 2009

EMU balance in 2008-2010 (% of GDP)



Source: Spring Forecasts, April 2009, European Commission

It takes a great deal of effort and many years to clear a budget deficit. Additional measures are needed to guarantee sound public finances in the longer term. The government took this into account in the agreements it made to overcome the crisis. Its approach is considered further in the section below.

4. 2010 budget year and government plans

The government has given absolute priority to jobs and economic activity. Solidity and solidarity must go hand in hand. The government is aware that the Netherlands cannot work itself out of the crisis on its own. International cooperation and coordination are essential, for instance to restore confidence in the financial system and to ensure that countries are not tempted to give preferential treatment to their own industries and labour markets. Government action to increase employment must not disrupt the European internal market or distort world trade relations.

The government's approach to the crisis

Government policy has consistently been aimed at cushioning the immediate and grave consequences of the economic crisis in so far as possible, at sharing the burden fairly and at strengthening economic resilience. Its very first interventions in the banking sector were designed to support business and consumer lending, to protect savings, to keep payment transactions in operation and to maintain confidence in the financial system. A supplementary policy agreement was concluded in spring 2009. It is based on an integrated vision made up of inseparable components. The government's approach to the crisis is considered further in the box below.

Government approach to the crisis

The government's aim is to soften the direct detrimental consequences of the crisis. Concurrently, we are working hard on restoring the economy and public finances in the longer term.

- **Protecting savings and facilitating lending**

The government has intervened firmly in the Dutch financial sector on several occasions. It has provided guarantees, loans and capital injections and taken equity holdings, including the acquisitions of ABN-AMRO and Fortis. A healthy banking sector is essential to everyone in the Netherlands in many ways. It enables us to make payments to each other. Without banks there would be no internet transactions, bank transfers or cash withdrawals. In addition, nearly every person in the Netherlands has a direct or indirect interest in the banks. If banks go

bust, savers lose their money. Moreover, pension funds have suffered significant losses because their assets have lost value owing to the fall in share prices; the outcome will be lower pensions or higher contributions. Finally, many people rely on banks for loans. Without the banking system only the very wealthy could afford to buy a house or set up a business. The jobs of people far removed from the financial system depend on a healthy financial sector; if savings disappear and loans are no longer granted, people will consume less and businesses will cut their investments. Without an efficient financial system, lending will come to a standstill and recovery will grind to a halt.

- **Maintaining public services**

Automatic stabilisers will feed more than €60 billion back into the Dutch economy in 2009-2010. Setbacks due to lower revenue and the like are no reason to economise or to increase taxes and contribution payments. Government expenditure will remain stable. This will prevent budgetary policy aggravating the economic downturn.

- **Targeted stimulus measures in 2009 and 2010**

The government will spend nearly €6 billion on revitalising the economy in 2010. Local authorities will provide a further €1.5 billion through their own stimulus plans. The measures will be targeted at creating and protecting jobs, making businesses stronger and more resilient and limiting any further decline in demand. They will also ensure that the Netherlands comes out of the recession stronger, smarter and more sustainable (see page 9 for a financial overview).

- **Recovery in public finances as from 2011**

Although the government is seeking the fastest possible recovery in public finances, it will not put the fragile economic recovery at risk. Both the timing and the extent of the deficit reduction will therefore be determined by the rate of economic recovery. The Netherlands is prepared to lay down the necessary minimum effort in law. In accordance with the European agreements in the Stability and Growth Pact, more effort will be made in times of economic growth. The minimum annual structural improvement in the budget balance will be laid down in an act on reducing central and local government deficits. The government also stated in the 2009 Spring Memorandum that it would cut spending by €1.8 billion as from 2011. Depending on the rate of economic growth in 2011, these savings will be applied to reduce debt and deficits or to continue certain stimulus measures in 2011. In addition, an accord has been reached with the social partners on responsible wage developments; moderate increases in salaries and benefit payments in the public sector will have a favourable impact on the budget.

- **Long term: assurances on affordability and availability of public services**

The public must be confident that public services – care, social security, pensions – will remain affordable and accessible. The government has accordingly opted for a robust package of measures to strengthen their financial sustainability. The measures include structural control of care expenditure, a gradual increase in notional rental values for owner-occupiers of more expensive housing and a proposal to increase the state pension age to 67, with due account being taken of the more physically demanding professions. This sustainability package can produce a long-term saving of 1.3% of GDP. The Social and Economic Council of the Netherlands (SER) has been invited to present alternatives to the proposed increase in the state pension age.

Expenditure, including stimulus measures

Some €4.2 billion has been earmarked for stimulus measures in the 2010 budget year. Of this amount, €900 million will be spent on labour market measures, including targeted action to reduce youth unemployment, additional funding for education and work placements, and part-time unemployment benefit payments to reduce the social impact of the crisis. Nearly €500 million has been earmarked to strengthen economic sustainability. About half will be applied to speed up sustainable spatial development projects financed from the Economic Structure Enhancing Fund (FES). Economic sustainability will also be sought through additional funding for the energy investment tax credit and the VAMIL/MIA tax schemes for entrepreneurs wishing to invest in environmentally friendly assets. A further €1 billion will be made available for infrastructure projects and the construction industry. These funds will be used to finance the construction and maintenance of youth care institutions, housing and schools, to bring forward the restoration of historic buildings and to construct and maintain waterways, locks, roads and bridges.

Revenues: development in the burden of tax and contributions

Decisions on the taxes and social insurance contributions paid by private individuals and businesses cannot be seen in isolation from the current economic situation. The government is adhering to the development in the burden of tax and contributions announced in the 2009 Budget Memorandum. A higher increase in tax and contribution payments might delay economic recovery whereas a reduction would place a further burden on public finances. This is an inevitable outcome of the operation of budgetary discipline on the tax and contributions side. Businesses will see an increase in their unemployment benefit contributions, however, because they will pay for the first six months of unemployment. This increase in contributions will be offset by a package of measures worth €1.1 billion directed at promoting innovation and increasing liquidity. The measures extending accelerated depreciation and amendment of the loss setoff facility for corporation tax purposes will directly boost business liquidity. To encourage innovation, the government will widen the scope for innovative entrepreneurs to use the 'patent box', thereby turning it into an 'innovation box'. In addition, the criteria for the research and development tax rebate and the employee education and training tax rebate will be broadened. The government will also adhere to the tax and contributions framework announced for private individuals. This will result in a balanced development of purchasing power in 2010.

Stimulus measures	2009	2010
+ = € million spending increases		
Creating and protecting jobs	669	905
Labour market (part-time unemployment benefit, mobility centres, etc.)	230	200
Tackling youth unemployment	100	120
Debt assistance	30	50
Secondary vocational education (strengthening education, work placements)	100	150
Major high-tech projects and knowledge workers	90	190
Renewal of FES innovation programmes nearing their conclusion		96
Faster implementation of FES innovation projects	119	99
Business liquidity injection	678	549
<i>Business lending and liquidity</i>		
Relaxation of corporation tax loss setoff facility 2008	335	-120
Broadening research and development tax rebate	135	150
SME envelope		53
Schiphol/aviation/flight tax	70	277
VAMIL/MIA	21	30
Energy investment tax credit	117	146
Reduced VAT rate for insulation		13
Infrastructure, construction and housing	610	1161
<i>Measures to combat the fall in demand</i>		
Accelerated location-based grant scheme and restoration of historic buildings	175	220
Strengthening of coastal defences (including beach nourishment)	80	50
Maintenance and construction of youth care institutions	35	45
Maintenance and construction of care and AWBZ institutions*		320
Maintenance and construction of schools	36	129
Waterways, locks and inland ports	75	125
Accelerated bridge construction and road repairs	75	138
Faster implementation of FES infrastructure projects	134	134
Economic sustainability	446	478
<i>Emerging from the crisis stronger and more sustainable</i>		
Sustainable farming	30	20
Electronic cars	5	15
Car scrapping scheme	35	30
Residential energy savings (double glazing)	10	20
Spatial economy (Van Geel motion)	60	55
Faster implementation of FES spatial economic policy projects	190	190
Faster implementation of FES environmental and sustainability projects	91	128
Sustainable energy		15
Sustainable business	25	5
Implementation of FES projects	29	90
Municipal and provincial stimulus measures	500	1000
Subtotal stimulus package	2931	4183
Unemployment benefits (unemployment, and work and social assistance schemes)	1603	4554

Purchasing power

Static purchasing power shows how a person's income changes when their circumstances remain unchanged. Despite the crisis, purchasing power rose sharply in 2009. There will be a slight fall in 2010. Taking 2009 and 2010 together, the average person will be better off in 2010 than before the crisis despite the sharp economic contraction in 2009. The figures do not reveal, however, that many people will be worse off in 2009 and 2010 owing to changes in their circumstances, particularly on account of redundancy and unemployment. It is therefore more important to look at dynamic purchasing power. People who lose their jobs and have to rely on benefits are faced with a pronounced drop in income. Tax and benefit measures are not enough to overcome the loss of purchasing power. That is why many government measures are directed at protecting jobs and preventing long-term unemployment. This is the best policy to protect purchasing power, especially during a crisis.

5 Netherlands 2020: broad-based reviews

The present government's mission is set out in the coalition agreement entitled 'Working together, living together'. This mission remains unchanged. However, the crisis has altered the circumstances in which it must be accomplished in a way that is unique in recent Dutch history. This is certainly no reason to throw in the towel or abandon our long-term goals. But it *is* a reason to thoroughly reconsider our choices in a number of policy areas.

Amid all the uncertainties that still exist regarding the length and depth of the recession, one thing is certain: after the crisis we will have to contend with stubborn problems, especially in areas such as the labour market and public finances, despite the measures already taken in the spring.

Action needed to restore public finances and labour market participation

The sharp drop in revenue forces us to make difficult choices in the years ahead. For even if the economy recovers and grows by an average of 2% a year, as it did before the crisis, the budget deficit will barely improve and the national debt will continue to mount. Doing nothing is not an option. Saddling future generations with the entire burden is unacceptable.

The problems on the labour market will also take longer to eradicate than they did to emerge. In 2010 the number of jobless is projected to be 600,000. That means that in 1 in 12 households someone will be unable to find a job. Additional measures will inevitably be needed in this area too in the coming decade.

Future challenges

Over the coming years, a great deal of government policy will come up for discussion. And that is all to the good. For it will force us to think hard about our ambitions and ideals for the Netherlands in the period until 2020: working together to make our society smarter, stronger, cleaner, more robust and more equitable. To launch the social debate and enable the various options to be assessed and, where possible, implemented, the government has formulated the following ambitions, some of which are old and some new:

- putting the financial sector in order;
- implementing a sustainable energy and climate policy;
- fighting unemployment and increasing labour market participation;
- revitalising civil society;
- stimulating growth, knowledge innovation and enterprise;
- conducting broad-based reviews;
- reforming the tax system.

Aim of broad-based reviews

To make fundamental policy decisions possible, more insight is needed into the potential policy options and their budgetary and other consequences. To gain such an insight, the government will launch a series of broad-based reviews as part of the Netherlands 2020 operation.

The aim of these broad-based reviews is to provide an insight into saving options and their potential consequences, without expressing an opinion on their desirability, so that well-informed decisions can be taken. A wide palette of policy themes will be reviewed. These broad-based reviews must produce a wide range of saving options that politicians can later select from. This operation is fundamental in character. To encourage creative and critical approaches, at least one compulsory alternative should be devised in every policy field whereby a structural saving is made of 20% of net expenditure (including tax subsidies) in 2010.

The operation will begin in October 2009 and will be completed in the second quarter of 2010. This will allow the results to be considered during the preparation of the 2011 Budget Memorandum. It has been agreed that a start will be made on restoring public finances to health in 2011 provided there is sufficient economic growth. As well as the outcome of the broad-based reviews, the overall palette of options available to the current and successive governments to bring revenue and expenditure back into equilibrium will consist of generic targets and tax and contribution measures.

With regard to the collective burden, a separate study will be made of the organisation of the tax system with a view to stabilising future tax revenues with the least possible disruption to the economy and the fairest possible division of tax and contributions.

6 Concluding remarks

Difficult years lie ahead for the Netherlands. Patience is needed to make up the loss of growth, to reverse the rise in unemployment and to address the deterioration in public finances. The government has opted for targeted, temporary measures to stimulate the economy for as long as the recession lasts. Specific attention will be paid to measures that improve the operation of the labour market. At the same time, the measures will also contribute to a sustainable and innovative economy.

The government is also looking further ahead. Public finances must be restored in order to guarantee the affordability and availability of public services for future generations. The government is seeking to restore them as soon as the Netherlands returns to adequate economic growth. The government has decided to take a series of measures regarding the sustainability of care expenditure, notional rental values and the state pension age, for which the SER has been invited to present an alternative. Nevertheless, a substantial effort will be required and fundamental policy choices will have to be made in the years ahead if public finances are to be returned to a sustainable level.