

The Hague, 16 september 2008

Budget memorandum 2009

Chapter 1

Policy highlights

In 2009 the government will:

- *invest in education, community regeneration, and security, and work to make the Netherlands a sustainable country where everyone counts. The government will press ahead with its plans as set out in the coalition agreement, despite the turbulent economic situation;*
- *combat inflation, thereby supporting purchasing power. The planned increase in VAT will not take place;*
- *encourage participation in the labour market. The government is prepared to cut employees' unemployment insurance contributions to 0% in the context of discussions with trade unions and employer organisations on responsible pay deals and other structural improvements to the economy. The government will introduce a bonus for people who stay in work beyond the age of 62;*
- *encourage innovation and business profitability. Businesses will pay less tax and contributions and the administrative burden will be reduced.*

1.1 The Netherlands well prepared for economic downturn

Global uncertainty ...

The Netherlands will not remain unscathed by the turbulence in the international economy. After years of high global economic growth, we are now seeing signs of cooling. The high growth was largely due to the entrance of emerging economies such as China and India into the global market economy. The United States and Europe also benefited from this development. But because of the turbulence in the financial markets, there is concern about the direction in which the international economy seems to be heading. The crisis in the housing market and the subsequent credit crisis in the United States are bad for consumer confidence and economic recovery in America. The result is lower growth in the US, which in turn has an impact on European growth. Share prices are under pressure across the globe. There has been a sharp rise in demand for oil and raw materials due to the growth of the emerging economies. This is one of the factors underlying the substantial increases in oil and food prices over the last year.

... but the Netherlands is in good shape

The Dutch economy is internationally oriented. One consequence of this openness is that the Netherlands will not escape the impact of the current international turbulence. While growth in 2006 and 2007 still exceeded 3%, the economy can currently best be described as cooling. The signs of prosperity are still widely in evidence, but it is becoming slowly apparent from the economic growth figures that the tide is turning. Growth in 2008 compared with 2007 will still probably be around 2¼%, but it is becoming more limited each quarter. The Bureau for Economic Policy Analysis expects 1¼% growth in 2009.

The Netherlands is nevertheless in good shape. Unemployment is very low at 4% in 2008 and projections for unemployment are currently still stable. The prudent budgetary policy pursued in recent years is now paying off. The public finances are healthy and income and expenditure are developing in line with the objectives set in the coalition agreement. The Netherlands also has an attractive business climate for foreign investors. We are therefore well equipped to cope with the impact of the slowdown in economic growth. The government can press ahead with the full range of plans outlined in the coalition agreement.

Responsible pay deals in the short term ...

Despite the fact that the Netherlands is in good shape, the current economic situation demands a carefully considered approach from the government and a sensible response by the trade unions and employer organisations. The relatively high inflation we are currently witnessing is unusual in a cooling economy. The Bureau for Economic Policy Analysis forecasts inflation of 2¾% in 2008 and 3¼% in 2009. Inflation hits the public in their pockets. The natural response is a call for higher pay. However, responsible pay awards are currently more important than ever if we are to avoid a situation in which prices and pay each rise in turn.

A wage-price spiral would damage the economy because it would make Dutch products more expensive. High prices would make the Netherlands less attractive for businesses compared with other countries. And if businesses can no longer meet rising wage costs, unemployment will rise. The government therefore attaches great importance to curbing inflation and wishes to protect the public's purchasing power as far as possible. It is for this reason that the proposed increase in VAT rates as of 1 January will not take place. This is expected to result in inflation of 3¼% instead of 3¾%. It will still be necessary to seek responsible pay awards, promote labour market participation and make other structural improvements to the economy. These issues will need to be discussed with the trade unions and employer organisations. In this context, the government is prepared to cut employees' unemployment insurance contributions to 0%.¹

¹ . In view of the government's willingness to lower unemployment insurance contributions, all figures in the Budget Memorandum have been calculated on the assumption this will actually happen.

... and tackling the challenges facing us in the long term

The economic growth experienced in recent years has reduced poverty across the globe. And it has enabled countries like the Netherlands to benefit from cheap imports and greater export opportunities. But the globalisation of international markets poses threats as well as creating opportunities, and there are losers as well as winners. Because businesses are becoming increasingly easy to relocate, it appears increasingly difficult for national governments to defend public interests and employees' interests. Economic growth is accompanied by higher CO₂ emissions and higher consumption of scarce raw materials. Moreover, developing countries cannot always take full advantage of globalisation. Countries experiencing steep rises in wealth take widely varying approaches to its national distribution. Because of the interconnectedness of international financial markets, crises which at first seem to be local spread more readily. Effective rules and international cooperation are needed to counteract these threats to income distribution, financial stability and the climate. It is the role of government to set these rules, nationally and internationally. A strong market demands a strong government. Constant effort is needed to find the right balance.

There are also long-term trends in our own country that demand a response. The current tightness of the labour market will persist because of demographic ageing. The government is therefore taking action to help raise labour productivity and get more people into work. This action is needed to maintain the level of services to which we are accustomed in our welfare state. Moreover, labour market participation is important because it gives people the opportunity to use their talents. And because it means more people make a financial contribution, participation is also an important factor in meeting another long-term challenge – that of maintaining the long-term health of the public finances. It will enable us to maintain the current level of public services without having to introduce substantial rises in taxes and contributions in the near future. In order to improve the sustainability of the public finances, future over-65s on higher incomes will gradually start contributing more to funding the welfare state from 2011. This 'sustainability contribution' stems from a commitment made in the coalition agreement.

In taking these and other measures, the government is aiming to improve the structure of the economy and society. This will safeguard the Netherlands' future as a society with an effective government, an open economy and a robust welfare system which allows individuals to realise their potential.

1.2 Labour market participation, support for purchasing power, and tax cuts

Increasing labour market participation

In order to get more people into work, the government is introducing measures to make work more remunerative. The government is prepared to cut employees' unemployment insurance contributions to

0% in the context of discussions with trade unions and employer organisations on responsible pay deals and other structural improvements to the economy. In addition, new income-related employed person's tax credits (€720 million in 2009) will make it more attractive for people to take up employment. This applies in particular to non-working partners and benefit claimants. In order to encourage older people to carry on working longer, people who stay in work after the age of 62 will be eligible for a bonus. This income-related bonus will be paid for every year that the person concerned remains in employment.

A work/study entitlement will be introduced for young people between the ages of 18 and 27. As a result, young people will either be in education or in work, or a combination of the two. Employers will be encouraged to recruit older people, the long-term unemployed and partially incapacitated people by means of wage cost subsidies and lower employees' invalidity insurance contributions. Furthermore, arrangements have been agreed with the municipal authorities to improve job placement and reintegration services. These measures are in line with recommendations of the Bakker committee on labour market participation.

Supporting purchasing power for the public ...

A balanced situation as regards purchasing power is important not only for responsible pay awards and the government's employment objectives, but also for a fair distribution of income. When the coalition agreement was drawn up, it was agreed that in 2009 a total of €750 million would be made available to promote labour market participation, strengthen the structure of the economy and improve purchasing power. These and other funds are now being deployed as planned.

The shelving of the plans to increase VAT amounts to support for purchasing power for everyone in the form of lower price rises. By checking their payslips to see how much they currently pay, employees can see what the impact of cutting employees' unemployment insurance contributions to 0% would be. For people on average incomes, this change will be worth around €335 net every year. Working parent couples will benefit from the income-related employed person's tax credits, which can be worth up to €450 for the lowest-earning partner on half of average incomes and €1,000 on average incomes. The government's measures will support the purchasing power of the elderly and people on low incomes in particular. The AOW allowance will be raised by around €80 gross. Work will become more remunerative, especially for people on middle incomes. Because of these measures, people's purchasing power will generally improve in 2009 in spite of lower economic growth. The additional 'gains' for employed people will encourage people to take up work or to work more, which will help to strengthen the structure of the economy.

... and cutting tax for businesses

The burden of tax and contributions on businesses will also be lower in 2009. The SME profit exemption, which applies to income tax, will be raised. The business start-up allowance is being raised, but the self-

employed person's allowance will not be increased. Businesses will benefit from a lowering of the unemployment insurance contribution for employers. The cut in contributions will be worth some €400 million, rising to €500 million in 2011. Next year businesses will also profit from a substantial one-off windfall on healthcare insurance premiums, a substantial portion of which is paid by them. And the administrative burden on businesses will be eased. More importantly, responsible pay awards, if they are brought about by the conditional lowering of unemployment insurance contributions, will provide a cost gain for businesses. This will stimulate business growth and profitability.

1.3 Priorities – firmly under way

'Working together, living together' was the government's motto in 2007 when it presented its policy priorities for its term in office. The government intends to invest specifically in the quality of society, sustainable growth, an innovative economy and skills. A great deal of work remains to be done if the government is to achieve its aims. The government will therefore forge ahead with the implementation of its policy programme. More information on progress to date is given in chapter 3 of the budget memorandum. The government's main initiatives in 2009 are as follows:

Plans for 2009

- An additional €34 million net is available for the reintegration of young disabled persons and the implementation of the new employment scheme which will become operational in 2010.
- By tackling early school leaving, the government will improve young people's prospects in the job market. An additional €39 million will be available in 2009 to improve vocational orientation, educational guidance and advice for pupils and to ease the transition from pre-vocational secondary education (VMBO) to secondary vocational education (MBO). School will become more attractive with more sport and culture and there will be greater scope for VMBO pupils to do practical assignments and work with their hands.
- In 2009, around 5,000 grants will be awarded to teachers who wish to study further; teachers will also earn improved salaries. This will improve the quality of education and make the teaching profession more attractive.
- In 2009, the budgets for the Youth Care Offices and youth care services will be merged. This will give the provincial authorities greater freedom to direct funding to where it is needed and ease the task of reducing waiting lists in youth care. €870 million will be available for youth care services in 2009.
- In 2009, municipal authorities will be given an extra €100 million to set up a comprehensive national network of Youth and Family Centres. The Centres will support and advise parents and young people on questions about growing up and bringing up children.
- The government will set aside an additional €90 million to encourage more people to take part in civic integration programmes and to give participants assistance tailored to their specific needs. A

command of Dutch and knowledge of Dutch society are essential if migrants are to participate actively.

- The government aims to transform 40 problem neighbourhoods into neighbourhoods where people have good prospects and want to live. Now that all plans have been finalised with the municipal authorities and funding has been arranged, implementation will get under way in 2009. The government has set aside an additional €300 million for this, of which €115.5 million will become available in 2009. These funds will be used to implement the Strong Communities Action Plan, encourage local residents to take part and prevent the emergence of new problem neighbourhoods.
- Next year, €29 million will be spent on social innovation programmes relating to safety and security, care and energy. Businesses will be eligible sooner for the research and development tax incentive scheme (WBSO). An extra €39 million has been made available for this purpose. In addition, €40 million has been earmarked for innovation loans to support innovative projects by SMEs where there is a substantial element of risk.
- Innovation will also be stimulated by means of a selective continuation of projects nearing completion that are financed by the Economic Structure Enhancing Fund (FES) in the area of knowledge, innovation and education. Over the coming years, the government will commit up to €500 million from the FES for this purpose.
- By means of innovation grants and tax facilities, investments in welfare- and eco-friendly livestock buildings will be encouraged for buildings that satisfy standards exceeding statutory requirements. €17 million has been set aside for this purpose for 2009.
- In 2009, tighter energy consumption standards will be introduced for newly built homes, and grants will be available for the use of heat pumps, solar water heaters and solar panels. Money is also available for research into new ways of cutting greenhouse gas emissions. Over €1.7 billion has been allocated for climate and renewable energy policy as a whole.
- Important objectives in 2009 include establishing a good European climate package in the spring, and securing a good global climate agreement in Copenhagen in December.
- Public rail transport will be expanded. There will be more trains and new stations will be opened. €200 million (€75 million in 2009) is available for this purpose during the term of this government.
- The government wants to ensure that the country's dikes and dunes are in good condition and that the weak links in coastal defences are tackled. €396 million has been set aside for the flood protection programme in 2009. The Veerman committee recently produced recommendations on long-term water safety and security.
- The government will aim to reduce crime by increasing the likelihood of criminals being caught. With this in mind, there will be an extra 125 forensic assistants in 2009. The problem of habitual offenders will be tackled, partly by improving the help given to former prison inmates when they return to mainstream society.

- An additional 500 community police officers are to start work in 2011. €12 million has been allotted for 2009 for this measure.
- The main focus in 2009 of the Dutch armed forces is the NATO mission in Afghanistan. The government is investing in equipment and personnel to ensure that this and other crisis management operations are effective. Good, highly motivated personnel are essential if missions are to be completed successfully.
- The Human Rights Fund for the promotion of freedom of expression, media diversity and freedom of religion will be raised to €25 million.
- In the spring of 2009 a proposal will be presented to transfer responsibility for enforcing the Licensing and Catering Act to the municipal authorities. This will give them greater freedom to decide what measures they wish to take to discourage excessive alcohol consumption among young people.
- In 2009, more objective information about the quality of care provided in all healthcare sectors will be available on the publicly funded website *kiesbeter.nl*. Also, a bill will be submitted setting out patients' rights and strengthening rights to lodge complaints and participate in decision-making in health care. In order to give hospitals greater scope to innovate, prices for a larger proportion of hospital care will become freely negotiable with healthcare insurers.
- In 2009, the first steps will be taken to reserve the Exceptional Medical Expenses Act (AWBZ) for the most vulnerable groups. This will improve needs assessment. In addition, payments for care at institutions will be linked more to patients' needs than to the services offered by an institution.
- The government will seek to improve the quality of services and reduce the number of civil servants. For example, the number of rules will be reduced and in 2009 the 25 most frequently used forms will be simplified.
- In 2008 and 2009, two special-purpose grants are to be bought off, ending long-term commitments to municipal authorities. The reduction in the number of special-purpose grants will help reduce the administrative burden. This measure will cost €650 million.
- It has been agreed with municipal authorities that all aliens who have received residence permits under the amnesty for some illegal immigrants will have housing by 2009.

Childcare and the AWBZ

The government has also had to make some tough decisions because expenditure on a number of schemes has been rising faster than expected. In the spring, for example, measures were taken to rein in the unexpectedly sharp rise in expenditure on childcare and on the AWBZ, partly due to the growth in personal care budgets. Groups that need to do so must be able to continue to use the schemes, but action should be taken against abuses. This is a responsible way of making these schemes more manageable. In spite of these measures, this government is still spending substantially more on childcare and the AWBZ than its predecessors.

1.4 Public finances and budget policy

The government's policy priorities for 2009 fit within the financial parameters agreed by the government for the period up to 2011. Budget policy defines the financial framework within which choices have to be made to ensure healthy public finances both now and in the future.

On course for 2011

In the coalition agreement the government made a commitment to aim for a structural (cyclically adjusted) budget surplus of 1% of GDP (Gross Domestic Product: total earnings in the Netherlands on the sale of goods and services) by 2011. A budget surplus exists when receipts exceed expenditure. In this way the national debt can be repaid. Lower debt means lower interest expenditure and therefore also contributes to healthy public finances in the future with an ageing population.

Table 1.1 Budget surplus (EMU balance) 2008-2011 (% of GDP)

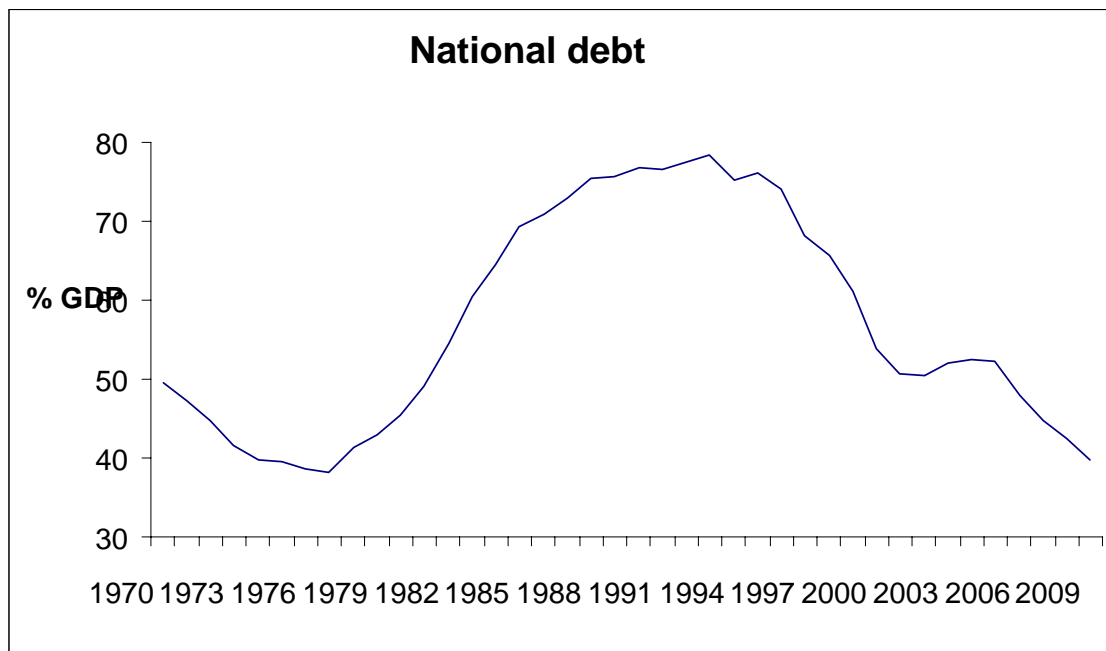
	2008	2009	2010	2011
Actual budget surplus *	1.2	1.2	0.8	1.1
Structural budget surplus*	0.9	1.1	0.9	1.2
<i>Estimates in previous Budget Memorandum</i>				
Actual budget surplus	0.5	0.6	0.7	1.0
Structural budget surplus	0.4	0.7	0.8	1.1

* The estimates for 2008 and 2009 are based on the Bureau for Economic Policy Analysis's 2009 macroeconomic forecast. No estimates on the economy are currently available for 2010 and 2011. The estimates for these years are based on technical assumptions from the Bureau for Economic Policy Analysis's 2008-2011 forecast of September 2007. This is based *inter alia* on an oil price of 65 dollars in 2011. In view of the current oil price, the estimates for 2010 and 2011 are cautious.

It was agreed in the coalition agreement that the government would take extra measures if the budget approached a deficit of 2% of GDP. Thanks to a sound budgetary policy, the budget is not in the danger zone. Despite the cooling of the economy, achieving a structural budget surplus of 1% of GDP by 2011 is a feasible objective. The projected budget surplus in 2008 and 2009 is even bigger than had been expected. This is attributable to the high price of oil, which results in greater receipts from natural gas in the central government budget, as the price of gas is linked to that of oil. This positive effect on public finances must be set against the fact that higher oil prices may further slow down economic growth. Less growth translates into lower revenue from taxation and social insurance contributions. In the longer term, therefore, higher oil prices have an adverse effect on government revenue. This is an important reason for not using the higher natural gas income for additional expenditure. The budgetary rules are also based on this principle.

Falling national debt

Because of the increase in the budget surplus, the national debt is falling more quickly than expected. In 2009, it is expected to be about 40% of GDP. By 2011, the government expects that the national debt as a percentage of GDP will have fallen to its lowest level since records began (1814).



Stable budgetary policy

Dutch budgetary policy has proved very successful in recent years and is therefore highly regarded internationally. The principles of the current budgetary policy have been solidly maintained since its introduction in 1994. Its core element is that the government should not constantly react to the latest developments in the economy. Planned expenditure is going ahead even in the current adverse economic climate. By the same token, expenditure is not adjusted when growth exceeds expectations. This engenders considerable stability and gives government policy predictability. In the coalition agreement, the government agreed on a ceiling for government expenditure. The separation between income and expenditure prevents the government from spending more by raising the taxes paid by the public and businesses. To ensure that spending remains below the agreed ceiling, the government takes action on schemes with spiralling costs to make them more manageable. Measures in the area of health and childcare are examples of this approach.

The current economic situation demands a carefully considered policy response from the government. The government has opted to make tax cuts in the near future to protect the public's purchasing power and help prevent a wage-price spiral. The scope to make these cuts arises from the fact that the agreed sustainability contribution will deliver a greater sustainability gain than anticipated. In this way the short-

term interests of the public and business and the long-term aim of sustainable public finances are both served simultaneously.

1.5 Building confidence

The Netherlands faces an uncertain year. The economic turbulence will persist for some time, both in the Netherlands and the wider world. The Netherlands has used the years in which the economy has prospered to prepare itself for less prosperous years. Unemployment is low and the public finances are in order. Because of this sound position, we are well equipped to cope with economic adversity and address the challenges that will arise in the near future.

Contributing to lower inflation

The high rate of inflation demands government action to bolster the public's purchasing power and business profitability. The government has therefore decided not to raise VAT as had been planned, but is prepared subject to certain conditions to go ahead with the cut in employees' unemployment insurance contributions. This will have a positive impact on the economy and will help curb inflation. In combination with measures such as the bonus for older people who stay in work, this will also contribute to the long-term improvement of labour market participation and the sustainability of public finances. The government remains committed to strengthening the structure of the economy by investing in innovation and people's strengths.

Confidence

The government will press ahead with its plans in 2009. Despite economic adversity, we will continue to work towards a society that enables people to participate, with a strong economic structure, good public services and a fair distribution of income. Both for the present, and for future generations. So that we can face an uncertain future with confidence.