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TO PRIORITY FCO

TELNO 521

OF 161620Z SEPTEMBER 86

INFO PRIORITY HM TREASURY (FOR EF2), BANK OF ENGLAND

INFO ROUTINE TO DOWNING STREET, DTI, ECOD, UKREP BRUSSELS, OECD PARIS

INFO SAVING EC POSTS

**NETHERLANDS 1987 BUDGET**

## SUMMARY

1. THE MINISTER OF FINANCE'S BUDGET CONTINUES THE AUSTERITY PROGRAMME OF THE PREVIOUS LUBBERS' ADMINISTRATION. A MAJOR FEATURE IS THE PROVISION FOR SAVINGS OF 12.3 BILLION GUILDERS TO OFFSET AN EXPECTED DECLINE OF 8 PER CENT IN GOVERNMENT REVENUES FROM NATURAL GAS SALES IN 1987. THIS INVOLVES A CUT OF 4000 POSTS IN THE PUBLIC SERVICE ESTABLISHMENT. FOR THE FIRST TIME IN 30 YEARS GOVERNMENT EXPENDITURE WILL BE LOWER THAN IN THE PREVIOUS YEAR. NEVERTHELESS THE PUBLIC SECTOR DEFICIT WILL RISE FROM 7.3 PER CENT OF NET NATIONAL INCOME IN 1986 TO 8 PER CENT IN 1987.

## GENERAL

2. THE BUDGET PREDICTS ANOTHER YEAR OF STEADY ECONOMIC GROWTH IN 1987 ALTHOUGH AT A SLOWER RATE THAN IN THE PREVIOUS TWO YEARS. AFTER RISING TO 8 PER CENT IN 1987 THE PUBLIC SECTOR DEFICIT IS FORECAST TO FALL ABOUT 1 PER CENT EACH YEAR THEREAFTER TO REACH AN AGREED TARGET OF 5.2 PER CENT OF NNI BY 1990.

## EXPENDITURE CUTS

3. THE BUDGET SEEKS TO ACHIEVE IN 1987 TWO THIRDS OF THE TOTAL SAVINGS TO BE MADE OVER THE GOVERNMENT'S FOUR YEAR TERM. CUTS IN PUBLIC EXPENDITURE WILL TOTAL 5.4 BILLION GUILDERS, SPREAD AS FOLLOWS:

DEPARTMENTAL EXPENDITURE	2.4 BILLION
PUBLIC SECTOR	1.2 BILLION
SOCIAL SECURITY PAYMENTS	1.2 BILLION
HEALTH CARE	0.6 BILLION

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4. THE BULK OF 4000 POSTS TO BE CUT IN 1987 ARE TO COME FROM THE SUPERANNUATION FUND ADMINISTRATION AND FROM AMONG CIVILIAN STAFF OF THE MINISTRY OF DEFENCE (

ALTHOUGH SERVICE PERSONNEL ARE EXEMPT).

ADDITIONAL EXPENDITURE

5. THE BUDGET PROVIDES FOR ADDITIONAL EXPENDITURE TOTALLING 794 MILLION GULDERS (260 MILLION GULDERS MORE THAN ANTICIPATED IN THE COALITION ACCORD IN JULY) AS FOLLOWS (IN GULDERS):

JOB CREATION SCHEMES	250 MILLION
EDUCATION	50 MILLION
LAW AND ORDER	50 MILLION
POLLUTION RELIEF	16 MILLION
TACKLING THE EXCESS MANURE PROBLEM	25 MILLION
LOCAL GOVERNMENT SUBSIDIES	143 MILLION
ROAD FUND	100 MILLION
MINIMUM INCOME FAMILY SUPPLEMENTS	60 MILLION
PTT (TELECOMS) INVESTMENT	100 MILLION

REVENUE PROPOSALS

6. GOVERNMENT REVENUE WILL RISE BY 6.9 BILLION GULDERS MAINLY FROM INCREASED TAXATION, BUT ALSO FROM REDUCTIONS IN SUBSIDIES PAID TO INDUSTRY AND PRIVATISATION RECEIPTS AS FOLLOWS:

REDUCTION IN CAPITAL ALLOWANCES, ABOLITION OF STOCK ALLOWANCES IN INCOME TAX AND CORPORATION TAX	- 1.8 BILLION
ONE PER CENT INCREASE IN BOTH RATES OF VAT	- 2.0 BILLION
INCREASED EXCISE DUTY ON FUEL OILS( BY 9 CENTS PER LITER) AND CORRESPONDING INCREASE IN SURCHARGE ON LPG	- 0.8 BILLION
KNOCK ON EFFECT ON NATURAL GAS REVENUES OF INCREASE IN EXCISE DUTY ON OIL	- 0.5 BILLION
PRIVATISATION INCOME AND EXTRA GAS SALES	- 0.4 BILLION
INCIDENTAL REVENUES, EG ANTICIPATED TAX RETURNS	- 1.4 BILLION

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-3-

DETAILED FORECASTS

7. GNP IS EXPECTED TO RISE BY 2%, INFLATION TO BE REDUCED TO ZERO AND BOTH INDUSTRIAL PRODUCTION AND CONSUMER SPENDING TO RISE BY 2.5%. 40,000 NEW JOBS WILL BE CREATED WHICH WILL ASSIST IN BRINGING THE UNEMPLOYMENT LEVEL BELOW 700,000 IN 1987. REDUCTIONS IN SOCIAL SECURITY CONTRIBUTIONS AND THE FALL IN IMPORT PRICES WILL RESULT IN INCREASES IN DISPOSABLE INCOME, (2.5% IN THE PRIVATE SECTOR AND UP TO 2% IN THE PUBLIC SECTOR). A CONTINUED IMPROVEMENT IN COMPANY PROFITABILITY IS FORECAST. BUSINESS INVESTMENT WILL RISE BY 4.5% AFTER AN 8% INCREASE THIS YEAR. WHEN ALLOWANCE IS MADE FOR THE DECLINE IN INVESTMENT IN THE DUTCH ENERGY SECTOR THIS STILL REPRESENTS A HEALTHY LEVEL OF INVESTMENT IN THE REST OF THE ECONOMY. BOTH EXPORTS AND IMPORTS SHOULD RISE AGAIN. THE FORECAST IS FOR A CURRENT ACCOUNT SURPLUS OF DFL 13.5 BILLION.

COMMENT

8. THE CONTINUING RECOVERY OF THE ECONOMY AND THE FAVOURABLE FORECASTS FOR 1987 HAVE ENCOURAGED THE GOVERNMENT TO AIM AMBITIOUSLY TO COMPENSATE FOR THE LOSS OF REVENUE FROM NATURAL GAS SALES OVER A RELATIVELY SHORT PERIOD. THE BALANCE STRUCK BETWEEN LOWERING GOVERNMENT EXPENDITURE AND RAISING ADDITIONAL REVENUE IS A RESULT OF PROTRACTED DISCUSSION BETWEEN THE COALITION PARTNERS. THERE ARE THOSE, INCLUDING THE GOVERNOR OF THE NETHERLANDS BANK, DUISENBERG, WHO CONSIDER THAT THE EFFECT OF THE BUDGET WILL NOT BE AS TOUCH AS ITS APPEARANCE(SEMI-COLON) AND THAT THE BUDGET IS NOT SEVERE ENOUGH TO DEAL ADEQUATLY WITH THE LOSS OF NATURAL GAS REVENUES NOR TO ACHIEVE THE NECESSARY CONTINUING LOWERING OF THE PUBLIC SECTOR DEFICIT.

9. CUTS IN THE GOVERNMENT SERVICE IN SUCH A SHORT PERIOD, PARTICULARLY IN THE DEFENCE CIVILIAN SUPPORT STAFF, ARE LIKELY TO CAUSE PROBLEMS. WE KNOW THAT SERVICE CHIEFS ARE WORRIED BY THIS.

10. THE BUDGET PROPOSALS WILL BE DEBATED IN THE SECOND CHAMBER IN MID- OCTOBER.

MARGETSON

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-3-

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