

## Excessive Deficit Procedure

The Maastricht Treaty, which foresaw the creation of the Euro, organized the way multilateral fiscal surveillance is conducted within the European Union. This surveillance is based on the Excessive Deficit Procedure (EDP): it sets out schedules and deadlines for the Council, following reports from and on the basis of opinions by the Commission and the Economic and Financial Committee, to reach a decision that an excessive deficit exists in a Member State.

The Treaty obliges Member States to comply with budgetary discipline by respecting two criteria: a deficit to GDP ratio and a debt to GDP ratio not exceeding reference values of 3% and 60% respectively, as defined in the Protocol on the EDP annexed to the Treaty.

These reference values are based on Government Finance Statistics concepts. The government deficit is the net lending / net borrowing of general government as defined in the European system of accounts (ESA95), adjusted for the treatment of interest relating to swaps. The government debt is defined as the total consolidated gross debt at nominal value in the following categories of government liabilities (defined in ESA95): currency and deposits, securities other than shares excluding financial derivatives, and loans.

### EDP notification tables

[Council Regulation 479/2009, as amended](#), requires that Member States report EDP-related data to Eurostat twice per year – at end-March and end-September. The data are reported in harmonised tables. These tables are designed specifically to provide a consistent framework, with a link to national budgetary aggregates and between the deficit and changes in the debt. They should be fully consistent with other Government Finance Statistics data.

Statistical Netherlands is responsible for the compilation of the Dutch EDP notification tables for the reporting past years: i.e. collecting the relevant data (from the State, municipalities, provinces, schools and other government institutions) and recording transactions according to European guidelines. The Ministry of Finance is responsible for the forecasts on the current and the coming year.

The EDP notification tables have the following format:

#### *EDP Table 1*

Table 1 provides a summary view showing the net lending / net borrowing (deficit or surplus) for general government and sub-sectors, the general government debt by instrument, interest payable by general government (reported both with and without interest payments on swaps and FRA), gross fixed capital formation of general government, as well as the GDP of the reference year.

#### *EDP Tables 2*

Tables 2 (2A, 2B, 2C and 2D) provide the link between the so-called working balances (i.e., the public deficit as reported nationally to parliament and supervisory bodies) and the net lending / net borrowing in ESA 1995 for each sub-sector. The working balances usually correspond to the traditional budget deficit or a public accounting balance. Working balances need to be completed by operations that are off-budget, but that are considered in national accounts as part of government operations. Working balances need to be corrected for operations that impact them whilst are considered as financial transactions in national accounts without impact on the ESA deficit (e.g. loans granted by government), or alternatively the reverse: for operations that did not impact the working balances whilst are considered as expenditure in national accounts with impact on the ESA deficit (e.g. many cases of capital injections).

For the Netherlands, the working balance represents the State's cash balance to be financed (in Dutch 'feitelijk tekort' or 'financieringstekort'). This cash balance is published in the yearly Budget Memorandum and in the yearly Annual Report of the State. The main adjustments that are made to derive the government balance are the elimination of financial transactions in the cash balance, cash-accrual adjustments to convert cash data into accrual data and adding balances of other units making up central government (among others universities and Prorail).

For the local government sector, the working balance represents the balance of revenues and expenses after transfer to/from reserves of municipalities, provinces and public water boards. This working balance is on an accrual basis. One arrives at the EDP deficit by adding the net investments and transactions in land registered in the balance sheet, correcting for provisions and reserves in the working balance and adding balances of other units that form part of local government.

For social security funds, the working balance equals the balance of revenues and expenses. One arrives at the EDP deficit by adding the net investments in the balance sheet. The working balance is adjusted by using data received from the tax authorities on social insurance contributions, correcting for provisions and reserves in the working balance, correcting for differences between financed and produced care and adding balances of other units that form part of social security funds.

#### *EDP Tables 3*

Tables 3 [3A, 3B, 3C, 3D, 3E] makes the link between the net lending / net borrowing (ESA deficit) and the change in debt. Whereas the change in debt over one period reflects largely the deficit of the period, it is by no way equal. As an example, for a given deficit (i.e. an excess of expenditure over revenue), higher net acquisitions of financial assets lead to higher borrowing needs and therefore, likely, a higher change in debt.

#### *EDP Table 4*

Table 4 provides supplementary information: the stock in trade credit payable by government; the amount outstanding in the government debt from the financing of public undertakings; the extent and the reasons in case of substantial differences between the face value and the present value of government debt; and the Gross National Income (GNI).

Information that is not available for the Netherlands are indicated by an "L".

### **Supplementary tables on financial turmoil**

Since 2009 Eurostat has requested data from all Member States on government interventions in the context of the financial turmoil for the years 2007 and 2010. The data are presented in two different tables: "net revenue/cost for general government (impact on ESA95 government deficit)" and "outstanding amounts of assets, actual liabilities and contingent liabilities of government". The assets and liabilities are valued at nominal value in this table.