Effective Action Report 2013

1. Introduction

The high GDP growth in the years before the financial crisis was accompanied by a significant rise in debt, particularly in the case of households and banks. Underlying vulnerabilities - for example in the housing market, the pension system and the financial sector - were scarcely noticeable due to the favourable financial and economic situation. However, the financial crisis exposed these vulnerabilities. Balance sheets of households and financial parties have been overstretched and this has had negative implications for economic growth, employment and public finances. Deleveraging takes time and is a major challenge.

The Netherlands can only put the crisis behind it if the necessary reforms have been implemented and deleveraging has taken place. A substantial package of reforms for the financial sector, the housing market, the labour market, healthcare and pensions is being introduced to bring about the future-proof growth of the Dutch economy. These reforms have been developed in more detail, on the basis of the Coalition Agreement, into a series of agreements with parliamentary parties and civil-society organisations, such as the Housing Agreement, the Social Agreement, the Healthcare Agreement and the Energy Agreement. It is also crucial that the health of public finances is restored and continuing the enhancing of their long-term sustainability.

The Netherlands is strongly committed to the adequate and careful application of the European budget rules. Within the framework of the excessive deficit procedure, the Dutch authorities would need to implement additional consolidation measures of at least 1 percent of GDP in 2014 on top of the measures already included in the baseline scenario. To this effect the government has presented, a substantial structural consolidation package of 6 billion euro (1 percent of GDP). In the package the consequences for entrepreneurship and employment are mitigated to a minimum, education spending is preserved and the package includes a number of growth friendly measures. The government is convinced that, in the light of the current economic situation, the additional 6 billion euro policy package is an effective and correct implementation of the recommendations within the framework of the excessive deficit procedure.

This Effective Action Report provides a short analysis of the underlying problems facing the Dutch economy and the structural reforms announced by the government as a response. A detailed description of the various structural measures can be found in the Economic Partnership Programme. Attention is also to be paid to the current situation regarding Dutch public finances and an assessment is to be made of how the government is complying with the recommendations within the framework of the excessive debt procedure.

2. The economic situation

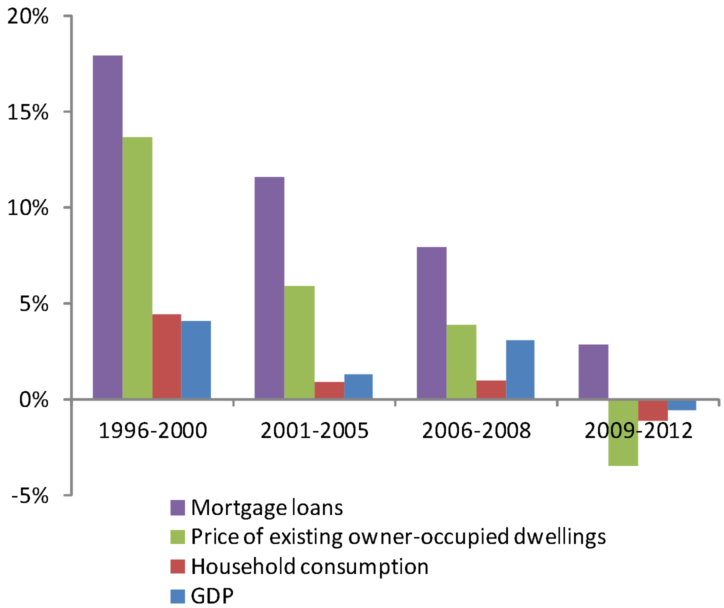
The current recession has a long history

In the second half of the 90s the Dutch economy grew by an average of approximately 4 percent per year. Besides exports, domestic spending also increased significantly during the same period. This was partly due to a significant increase in labour force participation during these years and the related income developments.[1] A significant proportion of the increase in domestic expenditure was due to borrowing and capital gains on, for example, houses and shareholdings .[2] During this period, substantial mortgage growth translated into consumption expenditure and stimulated house prices. The intensity eased after the turn of the century.

Prior *to the crisis, household consumption and debt increased significantly.*

The graph below shows how home mortgages and house prices grew substantially faster between 1995 and 2008 than gross domestic product (GDP). Household consumption and GDP also grew erratically in the second half of the 90s. After the turn of the century the growth rate of consumption decreased significantly. This was caused by a slowdown in capital growth and the stagnation of disposable family income.[3] Up until 2008, home mortgages continued to grow rapidly. As a result, the rise in house prices continued to have a stimulating effect on consumption. Although the net financial position of households was and is, on average, very positive, the simultaneous increase in house prices and mortgage debt turned out to be a risk faced by large numbers of people who had bought a house in the years prior to the crisis.

Figure: average annual growth mortgages, house prices, consumption an GDP



Source: CBS and DNB.

The financial crisis has translated into balance sheet recovery

The Dutch economy is currently in a phase of balance sheet recovery, whereby households, banks, pension funds and government are seeking to restore their capital positions. The Netherlands has a large financial sector (banks, insurers and pension funds) and household balance sheets grew rapidly in the years before the crisis. Home assets increased but mortgage debt increased even faster. The crisis has shown that both banks and individuals were exposed to falls in asset values. The drop in house prices forced many home owners into negative equity (where the mortgage debt is higher than the current value of the house). The proportion of households with negative equity

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[1] The number of double income households grew from 36 percent of households under the age of 65 year in 1990 to 47 percent in 2000 and 57 percent in 2009 (source: CBS).

[2] In the 1990-2000 period, house prices rose by 160 percent and the AEX by 450 percent. According to calculations by DNB, household capital increased as a result by approximately 1 trillion euro (1,000 billion) or, in other words, by an average of 55 percent of the available family income every year (source: DNB Annual Report, p. 17).

[3] See DNB Bulletin, *Minder geld in de gezinsportemonnee*, 23 July 2013. The DNB analysis shows that, since the year 2000, disposable family income has lagged behind GDP growth. The business community has managed to increase its income share and an ever-increasing portion of earnings in the Netherlands is benefiting households in a different way, namely in the form of collective care expenditure and future pension entitlements.

doubled between 2008 and 2011 from 13 percent to 25 percent, with younger households being hit particularly hard.[4] Their number has grown further in recent years as house prices have continued to fall. Balance sheet recovery is inevitably placing a brake on consumption and new investments. Experience shows that recovery from a financial crisis takes a long time, particularly when balance sheets in the private sector are overstretched.[5] Moreover, during a recovery, economic growth remains below the levels that people have come to expect for a longer time.

Demographic ageing is now taking its toll

In addition to cyclical factors, such as balance sheet recovery and the financial crisis, structural factors will also influence the growth potential of the Dutch economy in the period ahead. The post-war baby boom generation is currently leaving the labour market. With labour supply growing less quickly and about to contract, the economy will not grow as strongly as in the past. The Netherlands Bureau for Economic Policy Analysis (CPB) has forecast average *potential* growth of 1.3 percent per year. In the period between 2008 and 2012 the average rate was 1.6 percent and 2.7 percent per annum between 1998 and 2002.

Balance sheet recovery demands a great deal from individuals and businesses

Balance sheet recovery means households must save more (for example to pay off mortgages) and consume less. In the financial sector, balance sheet recovery means banks must raise new capital or cut their balance sheet totals. They can do the latter in many ways, for example by selling foreign assets, or by lending less. Economic stagnation can be seen in lower production, less employment and increasing unemployment. Both production and employment in the market sector are about 5 percent below their pre-crisis peak. There are large sectoral differences behind these national averages.

This year the economy is expected to shrink further

The CPB Netherlands Bureau for Economic Policy Analysis estimates the Dutch economy to contract by 1¼ percent this year (after a contraction by 1.2 percent in 2012). In this context consumption, investments and public spending are having a negative impact on the development of GDP. Only exports are making a positive contribution to growth. There is a modest growth estimate for 2014 of +½ percent and it is assumed that, after a long period of decline, house prices will stabilise. It is hoped that this means an end of two successive years of declining economic activity. It is also important that, in the event of further budget consolidation, sufficient attention is being paid to the vulnerable economic recovery.

Unemployment is increasing

Unemployment is expected to become around 7.5 percent of the working population in 2014, compared to 4.4 percent in 2011. In comparison with other European countries, the level of unemployment in the Netherlands is still relatively low. However, there has been a relatively sharp increase since 2011. This increase is partly related to a greater supply of labour. Although employment has declined since 2011, the development of employment has still been relatively robust.[6] A shift is also taking place. Since employment (measured in number of jobs) peaked in the first quarter of 2009 at 9.3 million, around 250 thousand fewer people were in paid employment in the second quarter of 2013 and approximately 100,000 self-employed people had swelled the labour market.

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[4] At the beginning of 2011 there were 4.2 million owner-occupied households. The value of more than one million homes at the time was lower than the fiscal mortgage debt. The owners of six out of ten homes with negative equity were under the age of 40 (source: CBS webmagazine, 21 March 2013).

[5] See, for example, Reinhart and Rogoff (2009). '*This time is different. Eight Centuries of Financial Folly'.* Princeton University Press, Koo (2011). 'The world in balance sheet recession: causes, cure, and politics' *real-world economics review*, no 58, pp. 19-37 of Jorda, Schularick and Taylor (2012). 'When credit bites back: leverage, business cycles, and Crises' *Federal Reserve Bank of San Francisco Working Paper series* (previously published as NBER working paper No 17621).

[6] Since the crisis began, the number of jobs and the number of employed people has decreased much less than national production. This is the consequence of the labour hoarding by companies. This was widespread during the first few years of the crisis. However, national production also shrank year-on-year during the first quarter of 2013, for example more than the decline in employment.

Table Macroeconomic assumptions	2013	2014
Gross domestic product (billions of euro)	602	613
GDP development (volume)	-1¼%	½%
Inflation (consumer price index)	2¾%	2%
Contract wages market sector	1½%	1½%
Unemployment	7%	7½%
Long-term interest rates	2%	2½%
Euro – dollar exchange rate	1,32	1,32
Oil price ($ per barrel)	105	103

Source: Macro Economic Outlook 2014 (CPB)

3. Structural reforms

The financial crisis has exposed accumulated vulnerabilities in the Dutch economy. It is therefore important for the Netherlands to take measures to improve the operation of the economy. The government is therefore - in line with the country-specific recommendations - making significant reforms in the housing market, labour market, pensions and healthcare. A detailed description of the various measures can be found in the Economic Partnership Programme.

Towards a new balance on the housing market.

On the owner-occupied housing market the focus is on strengthening the resilience of households to shocks. The ratio between mortgage debt and the value of a dwelling (loan to value ratio) is gradually being reduced. In future people will enjoy interest relief only if they repay their mortgage on at least an annuity basis. As from 2014 onwards, moreover, the maximum relief at which mortgage interest can be deducted will be reduced in 28 annual steps from half a percentage point to ultimately 38 percent. The fiscal subsidies on the owner-occupied housing market are to be scaled down by more than 40 percent. The cost threshold of the NHG is also going to be further reduced in steps to 225,000 euro by 1 July 2016. Ultimately, it is going to be linked in the future to the average house price. This will reduce the scope of the NHG scheme (and the government's exposure as backup) and limit the market distortions it causes. To increase mobility on the housing market and reduce the accumulation of debt, transfer tax is structurally reduced from 6 percent to 2 percent. The government is also going to introduce reforms in the rented sector. For example, the maximum annual increase in rent above inflation will be dependent on household income (with a maximum applying of four percent over and above inflation) and movement in the housing market will be stimulated.

More future-proof labour market and pension system.

An efficient labour market is of key importance to economic growth. Demographic ageing means that labour market efficiency is also becoming increasingly important for older workers. The government is taking measures across the entire labour market to strike a new balance between flexibility and security. For example, the law governing dismissals is to be modernised as of 2016. The right to terminate employment will become more activating, fairer and simpler. Depending on the reasons for redundancy, there will be a single redundancy procedure. Certainty will be provided more quickly to employees and employers, and a maximum will be applied to severance pay. Furthermore, as from 1 January 2015, the government is going to make a series of changes to labour law to strengthen the position of flex workers and combat sham arrangements. Unemployment benefit is also to be reformed. Work-to-work guidance and a reduction in the maximum duration of publicly-funded unemployment benefit will make for a more activating system, helping the unemployed get back into work as quickly as possible. In this way people will remain in the labour market and (long-term) unemployment will be reduced. The state pension age is to be raised faster, to 66 in 2018 and 67 in 2021, and then linked to life expectancy. At the same time, tax-friendly arrangements for retirement savings will be reduced and restricted to an income of 100,000 euro. Finally, a new legal framework will strengthen the resilience of the pension system and spread risks more fairly among participants.

Improved operation of healthcare systems.

Healthcare has become more productive in recent years, with more care being delivered for each euro contributed. Nevertheless, there are still key challenges to be faced to ensure that the care system is organised more efficiently and to limit cost rises. The operation of the curative care system will be improved by, amongst other things, health insurers bearing more risks. Better information on quality and costs will enable patients and health insurers to make more critical and more considered decisions. Parties in the field have also committed themselves to national maximum growth rates to control the increase in healthcare expenditure. In long-term healthcare, the aim is to have people live at home for longer and receive care and support in their own surroundings. Some care and support services will therefore be decentralised to the municipalities. By organising care and support closer to the public, services can be tailored and better use can be made of the recipient's social network. Long-term intensive care will again focus more on the most serious care needs, for which it was initially intended.

The government is aware of the difficult state of the economy.

Reforms provide better prospects for the future but equally imply a different division of the benefits and burdens of certain collective arrangements.

- *Support for the housing market.* The government is taking a variety of measures in both the owner-occupied and the rental market to support the transition from the current difficult situation on the housing market. To stimulate the housing market, interest payable on residual debts will be deductible for ten years, 0.1 billion euro will be available in loans for first-time buyers and[7] double mortgage relief will be allowed temporarily if a taxpayer has not yet sold a previous home. To encourage construction, VAT on labour costs for maintenance and renovation has been lowered to 6 percent for a year and energy conservation investments will be further encouraged (by means of a revolving energy conservation fund with a total intended size of 740 million euro). To maintain investments by housing associations, the levy on lessors will be lowered by 0.1 billion euro in 2014. The aim is to enable housing associations to work more efficiently. The rules on housing associations' sale of dwellings will also be relaxed. This will create opportunities for other market parties and increase the associations' liquidity.

- *Labour market incentives.* The government and social partners have concluded a Social Agreement containing additional plans for the labour market as a whole. In the near future, labour market policy will be directed at preserving jobs by means of targeted incentives and a sectoral strategy. In 2014 and 2015, 0.3 billion euro will be available each year for the work-to-work programme and intersectoral training. An additional 0.1 billion euro is to be made available to help younger and older people. The system for people with an occupational disability, unemployment benefit and law on the termination of employment will be reformed at a later date in order to produce more calm and confidence in the labour market in times of crisis. The system for people with an occupational disability is going to be reformed in 2015 and unemployment benefit and redundancy law in 2016. Unemployment benefit is also going to be gradually reformed. In the long term these reforms will improve the operation of the labour market.

- The additional policy package, totalling 6 billion euro (see below), also includes a number of growth friendly measures, whereby existing resources will be released to stimulate investment, encourage lending and make work more attractive. Besides the positive effects in the shorter term, these measures will reinforce the growth potential of the Dutch economy.

[7] In 2013 this period has been maximised at 3 years. In 2014 the maximum will be 2 years.

4. Public finances

General government balance

The general government balance is expected to be -3.2 percent of GDP in 2013 and -3.3 percent of GDP in 2014. First and foremost, tax and premium revenues will increase in 2014 by 11.5 billion euro compared to 2013, primarily as a consequence of policy measures. However, gas revenue will decline in 2014 compared to 2013 due to the expected drop in the price of oil in 2014. At the same time, expenditure on the healthcare sector and on social security is set to increase in 2014. This is closely related to increasing ageing and unemployment. Lastly, the one-off revenue from the 4G frequencies auction for mobile telephony and mobile Internet will not feature in the forecast for the general government balance for 2014. As a result the balance will deteriorate slightyly from 2013 to 2014, despite the expected growth recovery in 2014 and despite the decision being taken to implement a substantial additional package of policies worth 6 billion euro (see paragraph 5).

Structural budget balance

The structural balance is going to improve from -2.5 percent in 2012 to -1.5 percent in 2013 and -1.3 percent in 2014. The structural balance is lower than the actual balance because it is cyclically adjusted. One-offs, such as the 4G frequencies auction and the nationalisation of the SNS, which have a major influence on the actual balance, are not taken into account in the structural balance.

Gross government debt

In 2013, the gross government debt is expected to be 451 billion euro (75.0 percent of GDP). In 2014 the debt will continue to grow to a total of 466 billion euro (76.1 percent of GDP). The increasing in GDP reduces dept as a percentage of GDP. However, some effects will cause the debt to increase. For example, the general government balance will be -19.9 billion euro in 2014. This is contrasted by the fact that Treasury banking by local government authorities will lead to an expected decrease in debt of around 2 billion euro between 2013 and 2014. The ING back-up facility will also cause the debt to decline. This facility is, in fact, being gradually scaled down.

	ESA Code	**2013**	**2014**
		% GDP	% GDP
Net financing balance (EDP B.9) per government sector			
Total government	S.13	-3.2	-3.3
Central government	S.1311	-0.9	-2.0
Local government	S.1313	-0.4	-0.3
Social security funds	S.1314	-1.8	-1.0
Interest expenditure	D.41	1.8	1.8
Primary balance[2]		-1.3	-1.5
One-off and other temporary measures		-0.5	0.0
Actual GDP growth (%)		-1¼	½
Structural balance		-1.5	-1.3
Gross debt		75.0	76.1

5. Additional Package

The excessive deficit procedure

The Netherlands is strongly committed to the adequate and careful application of the European budget rules. Within the framework of the excessive deficit procedure, the Dutch authorities would need to implement additional consolidation measures of at least 1% of GDP in 2014 on top of the measures already included in the baseline scenario. To this effect the government has presented, a substantial structural consolidation package of 6 billion euro (1 percent of GDP). In the package the consequences for entrepreneurship and employment are mitigated to a minimum, education spending is preserved and the package includes a number of growth friendly measures. The government is convinced that, in the light of the current economic situation, the additional 6 billion euro policy package is an effective and correct implementation of the recommendations within the framework of the excessive deficit procedure.

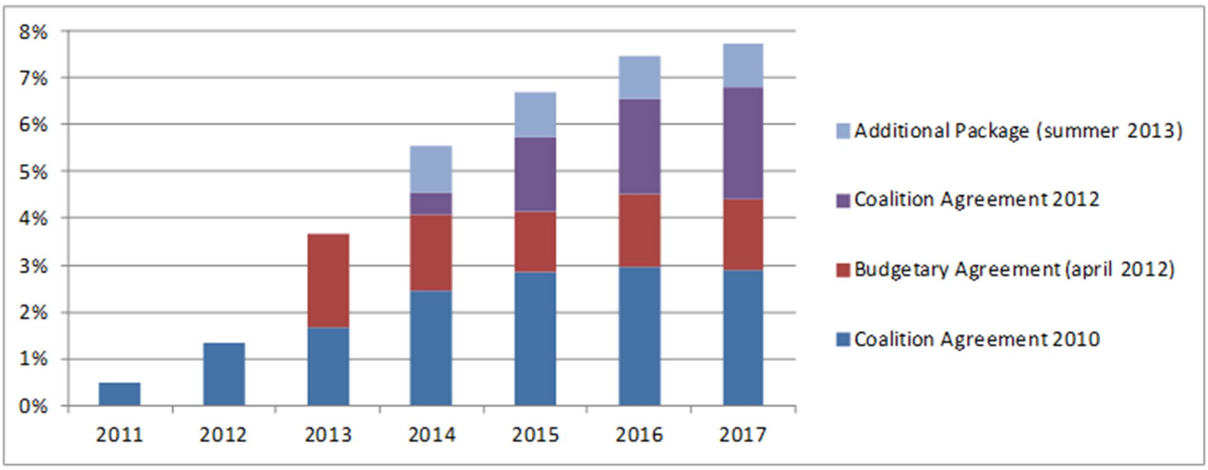
Effects of Additional Package

Without additional policy measures, the budget deficit is expected to increase to 3.9 percent of GDP in 2014 and only drop down towards 3 percent again at the end of this government's term of office, provided the economy grows as forecast by the CPB. Without additional policy measures and a recovery in growth, the Netherlands will lose its grip on public finances, while economic growth will lead to only slow improvements in public finances.

The Netherlands has taken measures totalling approximately 8 percent of GDP

The additional measures are being implemented on top of the three previous packages which were intended to improve the deficit. This was the package introduced at the start of the Rutte-Verhagen government, the measures included in the 2013 Budgetary Agreement and the measures included in the Rutte-Asscher Coalition Agreement. As shown in the graph below, the total measures for 2014 amount to more than 30 billion euro (approximately 5 percent of GDP), and for 2017 to more than 50 billion euro (approximately 8 percent of GDP).

Figure: cumulative yearly fiscal consolidation (in percentage of GDP)



Note: total of consolidated measures compared to a no policy change scenario.

Contents of Additional Package

The table below presents the additional consolidation package of 6 billion euro in structural savings. Savings will be made first and foremost in healthcare, social security and the public sector. The Healthcare Agreement will further curb the upward trend in healthcare expenditure. Regarding social security, a household benefit will be phased in which will integrate the current healthcare benefit, means-tested child benefit, housing benefit for tenants and a specific elderly person's allowance. This will make the system simpler and more transparent and increase the efficiency of income support. Expenditure on public sector salaries will be limited by putting jobs before income and by continued austerity measures for the civil service. Together with a number of tax and premium measures, such as the non-indexation of tax brackets and extension of the crisis levy, the national budget will be structurally brought more into line with the new economic reality.

Measure	2013	2014	2015	2016	2017	struc
(In billions of euro; - = deficit improvement)						
Health*		**-1,5**	**-0,8**	**-1,0**	**-1,3**	**-1,3**
Health agreement		-0,3	-0,5	-0,8	-1,0	-1,0
Reversal of transfer of health conditions with low impact to supplementary insurance		0,0	1,2	1,2	1,2	1,2
Healthcare benefit		-0,3	-0,3	-0,3	-0,3	-0,3
Medicines		-0,8	-0,9	-0,9	-0,9	-0,9
Miscellaneous (e.g. cross-border health care)		-0,2	-0,2	-0,2	-0,2	-0,2
Social security		**0,2**	**-0,7**	**-1,1**	**-1,1**	**-1,1**
Phased introduction of household benefit		0,3	-0,5	-1,0	-1,0	-1,0
Incapacity allowance		-0,1	-0,2	-0,2	-0,2	-0,1
Central government budget	**0,1**	**-1,5**	**-1,6**	**-1,5**	**-1,4**	**-1,5**
SME loans package	0,1	0,0	0,0	0,0	0,0	0,0
Reduction in scope for salary increases in public sector in 2014, excl. health care (increasing salaries at expense of fringe benefits)		-0,8	-0,8	-0,8	-0,8	-0,8
Price adjustment 2013 (adjusted for net general changes)		-0,6	-0,7	-0,6	-0,4	-0,6
Education forecast revision (including pupil numbers)		-0,2	-0,2	-0,2	-0,2	-0,2
Investment in quality of education		0,2	0,2	0,2	0,2	0,2
Contribution from ministerial budgets (excl. Min. of Soc. Affairs & Empl. and Health, Welfare & Sport)		-0,2	-0,2	-0,2	-0,2	-0,2
Taxes and contributions	**1,6**	**-2,7**	**-2,2**	**-2,2**	**-2,2**	**-1,7**
Taxation of annuities		-2,1	-0,8	-0,8	-0,8	-0,4
Freezing tax brackets and tax credits		-1,0	-1,0	-1,0	-1,0	-1,0
Retention of business-related revenue envelopes		-0,6	-0,6	-0,6	-0,6	-0,6
Extension of employer's levy on high incomes (crisis levy)		-0,5	0,0	0,0	0,0	0,0
Earlier increase in employed person's tax credit		0,8	0,0	0,0	0,0	0,0
Tax and contributions reduction for businesses		0,0	0,2	0,2	0,2	0,2
Abolition of VAT integration levy		0,1	0,1	0,1	0,1	0,1
Easing of gift tax		0,1	0,0	0,0	0,0	0,0
Extension of accelerated depreciation of investments	0,3	0,1	-0,1	-0,1	-0,1	0,0
Purchasing power package		0,3	0,3	0,3	0,3	0,3
Tax and contributions reduction for businesses	1,3	0,2	0,2	0,2	0,3	0,3
Cancellation of income-related excess and phasing out of general tax credit		0,0	-0,5	-0,5	-0,5	-0,5
Other		**-0,5**	**-0,8**	**-0,2**	**-0,1**	**-0,6**
Spending shifts involving development cooperation revolving fund, nature management and security		-0,3	-0,3	0,2	0,3	0,0
Ex ante impact of Municipalities Fund/Provinces Fund		-0,3	-0,5	-0,4	-0,4	-0,6
Total		**-6,0**	**-6,0**	**-6,0**	**-6,0**	**-6,2**

*Lower healthcare premiums are compensated by an increase in the tax rates in the 1st bracket (citizens) and the Invalidity Insurance Fund (Aof) premium (companies)

Clarification of the most important elements of the 6 billion euro package

Healthcare

The new agreements state that healthcare expenditure growth rates are going to be further reduced. In the case of GPs, the additional growth of 1 percent in 2014 and 1.5 percent from 2015 onwards will facilitate substitution and innovation. It has also been agreed with GPs that their funding is to be adapted as of 2015 to ensure that it links up more effectively with the shared ambitions, namely more local care. In order to reduce expenditure growth, the care sector is focusing more on measures to improve effectiveness, the provision of information and the quality of the care. These joint efforts are intended to result in a saving of 0.3 billion euro in 2014, increasing to 1 billion from 2017 onwards. Thanks to the broadly supported negotiation agreements with parties involved in curative care and the reductions in expenditure achieved with regard to medicines, the intended restriction of the basic healthcare package relating to the scrapping of treatment for disorders with a minimum burden of disease is no longer going ahead. At the same time it has been agreed that more attention should be paid to the proper use of care, with patients themselves playing a key role in addition to doctors. The realisation of a coherent whole of measures will achieve savings on medicines expenditure (structurally around 0.9 billion euro). The measures include entering into covenants with parties in the field, the granting of authorities to pursue a preference policy, freely negotiable rates for pharmacists and a more effective purchasing policy for care insurers. From 2014, 0.3 billion euro is going to be saved on the healthcare benefit. Lastly, the 'other care' item refers primarily to a structural saving on expenditure on cross-border care.

Social security

The government is going to streamline current benefits and simplify them by introducing the household benefit. The household allowance means the current healthcare benefit, child benefit, housing benefit and an elderly person's component are integrated into a single benefit per household with a single reduction percentage. This links up better with the financial capacity of households because the reduction percentage is not dependent on the number of benefits received or income. In the current benefits system, every benefit has its own reduction rules. This is complicated, certainly in the case of people who receive a number of different benefits, as a result of which the reduction percentage builds up and increases marginal rate. The household allowance makes this simpler and more transparent.

The household benefit is going to be introduced in phases. The Purchasing Power Allowance for Elderly Taxpayers Act (MKOB) is going to be abolished in 2015. In that year an elderly person's component for the household allowance is to be introduced which will include the budget of the fiscal elderly person's discounts. The child benefit will be added to the household allowance in 2017. After that the housing benefit in simplified form will become part of the household allowance. The introduction of the household allowance will generate a saving of 1 billion euro. The government is going to take extra measures to combat misuse and fraud in relation to benefits.

The disabled persons allowance based on the Chronically Ill and Disabled Persons Allowances Act (Wtcg) is to be reduced. This will generate a structural saving of 0.1 billion euro. In 2014 the disabled persons allowance is to be reduced from 342 euro net per year to 247 euro.

Central government budget

Besides the wage moderation agreed in the Healthcare Agreement for 2014 up to and including 2017, the wage adjustment or government and education sectors (excluding healthcare) is to be deducted insofar as negotiated wage development is concerned in 2014. However, the government is going to pay out the wage adjustment in 2015, in line with the normal reference system. The long-term effect of the 2013 tranche of the price adjustment is to be deducted.

The reference estimate of pupils and student numbers in 2013 and the student grant estimate are leading to lower expenditure as regards the Education, Culture and Science budget. In addition, the Coalition Agreement measures entitled 'The abolition of non-profit work placements required by law' and 'The abolition of free school books' will generate incidental additional revenues compared to the amounts originally recorded. An investment of 0.2 billion euro is to be invested in the quality of education. In the national education agreement additional measures have been agreed regarding wage developments. The budgetary impact are covered within the budget of the Ministry of Education, Culture and Science, and by increasing salaries at the expense of fringe benefits. Lastly, the ministries are going to generate 0.2 billion euro jointly.

Revenues

As from 1 January 2014, it is going to be possible for existing annuity rights to withdraw, in one go, the full entitlement from banks, insurers or an annuity right company. This entitlement is going to be partially, that is for just 80 percent, subject to income tax. The annuity right exemption for new severance pay is to be abolished as of 1 January 2014. This means that new severance pay will be included in full in the income tax levy at the standard rate in the year that the taxpayer receives it from his employer.

The tax brackets and tax credits are to be frozen by not implementing the adjustment for inflation in the income tax and wage tax for the year 2014. The envelope available in the Coalition Agreement to ease the tax and premium burden faced by companies to compensate the Sustainable Energy Production Incentive (SDE+) levy is not going to be implemented. The envelope from the Budgetary Agreement for a repayment to the business community to compensate for a number of environmental measures is not going to be implemented either. The total amount in question is 0.6 billion euro.

The pseudo final levy for high incomes (also referred to as the crisis levy) is an employer levy of 16 percent on an employee's income insofar as this exceeds an amount of 150,000 euro. This levy is going to be introduced for 2013. The pseudo final levy for high incomes is to be extended on a one-off basis. In 2014 the employed person's tax credit for lower incomes is to be increased by 127 euro. Including the Coalition Agreement the increase in 2014 amounts to 254 euro. As a result, the maximum level of the employed person's tax credit that was intended for 2015 will already have been achieved in 2014.

The cutback in the self-employed person's allowance by 0.5 billion euro is to be restricted as of 2015 through a reduction of 0.2 billion euro. This will leave a cutback in the self-employed person's allowance amounting to 0.3 billion euro as of 2015. Implementation will take place through a restriction on the self-employed person's allowance. This will create a better balance in the tax levy between entrepreneurs and employees.

Entrepreneurs regard the integration VAT levy as hampering decisions to convert old, empty offices into new dwellings for rental purposes and it makes them slow to rent out newly-built dwellings which are waiting to be sold. With a view to removing this bottleneck on the housing market, the integration levy is to be abolished. The abolition of this measure represents an amount of 0.1 billion euro per year.

Two elements will be subject to a temporary easing (from 1 October 2013 to 1 January 2015) of the increased exemption from gift tax for owner-occupied dwellings. The current level of the one-off increased exemption for gifts made by parents to their children of approximately 50,000 euro will be raised to 100,000 euro. The restriction on gifts made by parents to children is also going to be abolished. Anyone may then receive a one-off gift from any third person of up to 100,000 euro free of tax for the benefit of their own dwelling. The package is based on the cumulative amount for the broadening of the gift tax.

From June 2013 to 31 December 2013 entrepreneurs are going to be given a voluntary depreciation opportunity. This will improve the liquidity and financial position of companies facing replacement or expansion investments. During the second six months of 2013, an one-off maximum of 50 percent of acquisition and production costs can be written off arbitrarily.

Companies are to be compensated for the increasing sector fund premiums. In 2013 the compensation for the catch-up premium paid to the sectoral funds is 1.3 billion. Structurally, companies will be compensated by an amount of 0.2 billion, increasing to 0.3 billion for the structurally higher sector fund premiums as a consequence of increased unemployment.

The income-dependent excess (that was planned for 2015) is to be cancelled. In order to compensate the related purchasing power effects, the healthcare benefit is to be increased and there will be a continued scaling down of the general tax credit.