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COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plan of THE NETHERLANDS

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of THE NETHERLANDS

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1. INTRODUCTION

The Netherlands has submitted is Draft Budgetary Plan for 2015 on 2 October 2014[1] in compliance with Regulation (EU) No 473/2013 of the Two-Pack. The Netherlands is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the medium term objective (MTO).

As the debt ratio was 68.6% of GDP in 2013 (the year in which the Netherlands corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit the Netherlands is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark. In this period it should ensure sufficient progress towards compliance.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on Commission forecast. In particular, it also includes an assessment of the measures underpinning the draft budgetary plan. Section 4 assesses the recent and planned fiscal developments in 2014-2015 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations adopted by the Council on 8 July 2014, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic projections of the Draft Budgetary Plan are based on the updated forecast of the Netherlands Bureau of Economic Policy (CPB), covering 2014 and 2015 (see Box 1). In particular, after a decline by 0.7% in 2013, the Draft Budgetary Plan expects economic growth to reach ¾% in 2014 and to accelerate to 1¼% of GDP in 2015. This is slightly more pessimistic than the Commission 2014 autumn forecast that predicts growth to reach 0.9% and 1.4% in 2014 and 2015, respectively (see Table 1).

According to the Draft Budgetary Plan, domestic demand is estimated to increase its contribution to growth from ¼ pp in 2014 to 1 pp in 2015, mainly on the back of increasing investment. The external balance, on the other hand, would add only ¼ pp to GDP in both 2014 and 2015. The Commission 2014 autumn forecast foresees growth to evolve in a similar manner, the only difference being a somewhat lower contribution from the external side. Employment is expected to decrease by ¾% in 2015 and to increase by ¼% in 2015. The unemployment rate is expected to decrease slightly over the next two years. Inflation is expected to remain low; the harmonised consumer price index is expected to drop from 2.6% in 2013 to ½% in 2014 before slightly improving again to 1% in 2015. The Commission 2014 autumn forecast expects very similar inflation rates.

In the macroeconomic scenarios underlying the Draft Budgetary Plan and the Stability Programme, the forecasts of the overall GDP growth rates for 2014 and 2015 are the same; although a shift to a more domestic demand driven recovery is visible from the projections for the demand components in the Draft Budgetary Plan. The biggest risks to the macroeconomic

[1] The draft 2015 budget, which is the basis for the Draft Budgetary Plan, was presented to the Parliament on 16 September 2014.

forecast underlying the Draft Budgetary Plan are external: adverse global developments could spill over to the very open economy, unsettling the home-grown recovery.

Box 1: The macro economic forecast underpinning the budget in the Netherlands

The macroeconomic forecast underpinning the draft budget for 2015 was produced by the Bureau for Economic Policy Analysis (CPB). The CPB is functionally attached to and mainly financed by the Ministry of Economic Affairs. While it is a government body (the three members on its board are appointed by the Minister of Finance, in consultation with other Ministers) the CPB enjoys complete operational freedom, formally guaranteed by law[2], as well as significant resources. Since its foundation in 1945, the CPB has built up a strong reputation as regards the independence and quality of its deliverables.

The government traditionally uses the CPB's macroeconomic forecast to present the budgetary and economic effects of planned measures. This established practice has been formalised in 2013 by virtue of the Law on the Sustainability of Public Finances ('*Wet houdbare overheidsfinanciën*').

The government is still allowed to use a different forecast for the budgetary developments. In the draft budget for 2015 the government has exercised this right and has forecast a general government budget deficit for 2014 that is larger than the CPB estimate.

For the first time this year, ex-ante compliance of the budget with the Stability and Growth Pact was assessed by the advisory Division of another well-established public body, the Council of State (CoS) as per a mandate granted by the same above-mentioned law. In an advice published on 16 September 2014, the CoS acknowledges that the budget plan numerically meets the SGP requirements, but warns that the strategy to cater for the risk of budgetary deviations is insufficiently specified. The CoS is constitutionally independent from the government and is the principal advisor to the Government and Parliament on legal matters as well as the Netherlands' highest administrative court.

[2] The law *Wet houdende de voorbereiding van de vaststelling van een Centraal Economisch Plan* from 1947 gives the CPB the legal basis for its operations. The law *Aanwijzing op de Planbureaus* from 2012 codifies the independence of the CPB.

Table 1. Comparison of macroeconomic developments and forecasts

	2013	2014			2015		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	-0.7	¾	¾	0.9	1¼	1¼	1.4
Private consumption (% change)	-1.6	-¼	0.0	0.0	½	1.0	1.1
Gross fixed capital formation (% change)	-4.0	3¾	2¾	2.1	3¼	3½	3.3
Exports of goods and services (% change)	2.0	2¼	3¼	3.4	4¼	3¾	3.3
Imports of goods and services (% change)	0.8	2½	3.0	3.0	4.0	3¾	3.4
Contributions to real GDP growth:							
- Final domestic demand	-1.5	¾	¼	0.3	¾	1.0	1.1
- Change in inventories	-0.3	¼	0.0	-0.1	0.0	0.0	0.0
- Net exports	1.1	0.0	¼	0.7	½	¼	0.3
Output gap[1]	-3.5	-2.7	-3.0	-3.0	-1.9	-2.1	-2.1
Employment (% change)	-1.3	-½	-¾	-0.8	½	¼	0.3
Unemployment rate (%)	6.7	7¼	7.0	6.9	7.0	6¾	6.8
Labour productivity (% change)	0.7	1½	1½	1.8	¾	1.0	1.3
HICP inflation (%)	2.6	1.0	½	0.4	1¼	1.0	0.8
GDP deflator (% change)	1.1	¾	½	0.0	1¼	1¼	1.2
Comp. of employees (per head, % change)	2.3	3.0	2¾	2.6	3.0	1¼	0.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.9	9½	8½	7.1	9¾	8¾	7.5

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by the Commission on the basis of the programme scenario using the commonly agreed methodology.

Source :

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The forecast general government budget balance for 2014, a deficit of 2.9% of GDP, is the same in the Stability Progamme and the Draft Budgetary Plan (Table 2), despite the revision of the national accounts[3] which took place between the publication of the two documents. These revisions have a more visible impact on the revenue and expenditure ratios, that drop markedly in the Draft Budgetary Plan compared to the Stability Programme due mainly to the increase in the level of the GDP. Beyond these methodological changes, other factors, such as changes in the expenditure patterns, affect the ratios. The budget deficit in the Commission 2014 autumn forecast is 0.4 pp. lower than in the Draft Budgetary Plan, of which 0.3 pp. can

[3] Following the changeover to the new system of national accounts (ESA2010) and the substantial source revisions that were implemented contextually both the denominator and the numerator of the deficit to GDP ratio have changed. For example, the GDP for 2010 was adjusted upwards by 7.6 percent; the implementation of the new international guidelines on national accounts for 3.0 percentage points and re-evaluation of new sources accounts for 4.6 percentage points.

be explained by a different forecast of public expenditure, mainly concerning health care, asylum and emergency assistance. The remaining difference is due to different macroeconomic scenarios.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2013	2014			2015			Change: 2013-2015
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**44.5**	**47.4**	***44.6***	**44.8**	**47.7**	***44.3***	**44.6**	**-0.2**
of which:								
- Taxes on production and imports	11.1	12.0	*11.6*	11.6	11.8	*11.4*	11.5	0.3
- Current taxes on income, wealth, etc.	10.2	11.4	*10.7*	10.6	11.9	*11.6*	11.7	1.4
- Capital taxes	0.3	0.3	*0.0*	0.3	0.3	*0.0*	0.2	n.a.
- Social contributions	15.7	17.1	*15.7*	15.8	17.3	*14.6*	14.7	-1.1
- Other (residual)	7.2	6.6	*6.6*	6.5	6.4	*6.7*	6.5	-0.8
Expenditure	**46.8**	**50.3**	**47.5**	**47.3**	**50.0**	**46.5**	**46.8**	**-0.3**
of which:								
- Primary expenditure	45.3	48.5	46.0	45.8	48.2	45.1	45.3	-0.2
of which:								
Compensation of employees	9.2	9.5	9.2	9.2	9.4	8.9	9.0	-0.3
Intermediate consumption	6.5	7.0	6.2	5.7	7.0	5.9	6.3	-0.6
Social payments	22.5	24.9	22.7	22.7	25.2	22.4	22.5	-0.1
Subsidies	1.2	1.3	1.2	1.2	1.2	1.1	1.1	-0.1
Gross fixed capital formation	3.6	3.3	3.7	3.8	3.2	3.6	3.7	0.0
Other (residual)	2.1	2.5	3.0	3.3	2.2	3.2	2.8	1.1
- Interest expenditure	1.5	1.8	1.5	1.5	1.8	1.4	1.4	-0.1
General government balance (GGB)	**-2.3**	**-2.9**	**-2.9**	**-2.5**	**-2.1**	**-2.2**	**-2.1**	**0.1**
Primary balance	**-0.8**	**-1.1**	**-1.4**	**-1.0**	**-0.4**	**-0.8**	**-0.7**	**0.0**
One-off and other temporary	0.6	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
GGB excl. one-offs	**-2.9**	**-2.9**	**-2.9**	**-2.5**	**-2.1**	**-2.2**	**-2.1**	**0.7**
Output gap[1]	-3.5	-2.7	-3.0	-3.0	-1.9	-2.1	-2.1	1.4
Cyclically-adjusted balance[1]	0.0	-1.4	-1.0	-0.5	-1.0	-0.9	-0.8	-0.8
Structural balance (SB)[2]	**-0.6**	**-1.4**	**-1.0**	**-0.5**	**-1.0**	**-0.9**	**-0.8**	**-0.2**
Structural primary balance[2]	0.9	0.4	0.5	1.0	0.8	0.5	0.6	-0.3

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

There is a relatively large degree of uncertainty concerning the final outcome of the 2014 general government budget balance: the budget of the central government for 2014 includes some temporary revenue measures that were conservatively estimated but remain highly uncertain. In 2013 public expenditure for health care exhibited breaks in previous trends, increasing the uncertainty concerning public health care expenditure projections for 2014.

Compared to the Stability Programme, the projected general government deficit for 2015 was revised upwards in the Draft Budgetary Plan by 0.1% of GDP to 2.2% of GDP, mainly due to the revision of the national accounts, a slightly different economic outlook and some limited additional policy measures. The improvement of the budget deficit in 2015 compared to 2014 despite lower revenues (in percentage of GDP) highlights that that government is significantly reducing public expenditure (according to the Draft Budgetary Plan, from 47.5% of GDP in 2014 to 46.5% of GDP in 2015).

The Commission 2014 autumn forecast expects a general government budget deficit in 2015 of 2.1% of GDP, 0.1% of GDP lower than the Draft Budgetary Plan. This is the result of the slightly better deficit forecast for 2014 (abstracting form the differences in the forecast of some expenditure items as described above) that serves as a better starting position for 2015. Risks pertaining to the general government deficit are balanced and related to policy measures to be implemented in 2015, including the decentralisation of public services to municipalities[4].

As there are no one-offs included in any of the forecasts for 2014 and 2015 and the output gap estimations are similar (in particular when comparing the Draft Budgetary Plan and the Commission 2014 autumn forecast), the differences in nominal deficits translate directly into differences in the structural balance (see Section 4).

3.2. Debt developments

The Draft Budgetary Plan shows government debt levelling out at around 70% of GDP in 2015.

The large differences in the debt ratios in the Stability Programme and the Draft Budgetary Plan mainly stem from the revision of the national accounts.

Similarly to the Draft Budgetary Plan, the Commission 2014 autumn forecast expects the debt ratio to level at around 70% in 2015 before declining in 2016, mainly due to a further improvement of the primary balance and an increase in the GDP deflator. The small differences between the debt projections in the Draft Budgetary Plan and the Commission 2014 autumn forecast are mainly due to differences in the deficit forecast for 2014 (Table 3).

Risks to the debt projections are small and are related to the risks to the general government budget balance. Positive risks to the debt projections could materialise if the government decides to re-privatise banks that were nationalised in the course of the crisis. The government has declared its intention to re-privatise these banks in the coming years but details have not yet been announced and possible proceedings have not been taken into account in the projections of the government or of the European Commission.

[4] An important mitigating factor in this respect is the implementation of the *Sustainability of Public Finances Act* which includes joint responsibility of all layers of government for achieving budgetary targets set by Council recommendations (for correcting an excessive deficit or the (progress towards) the medium term objective) and a closer surveillance of subnational government budgets by the central government.

Table 3. Debt developments

(% of GDP)	2013	2014			2015		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**68.6**	**74.6**	**69.8**	**69.7**	**74.7**	**70.0**	**70.3**
Change in the ratio	2.1	1.1	1.2	1.1	0.1	0.2	0.6
Contributions[2] :							
1. Primary balance	**0.8**	**1.1**	**1.4**	**1.0**	**0.4**	**0.8**	**0.7**
2. "Snow-ball" effect	**1.3**	**0.5**	**0.7**	**0.9**	**-0.1**	**-0.3**	**-0.4**
Of which:							
Interest expenditure	1.5	1.8	1.5	1.5	1.7	1.4	1.4
Growth effect	0.5	-0.5	-0.5	-0.6	-0.9	-0.9	-1.0
Inflation effect	-0.7	-0.7	-0.4	0.0	-0.9	-0.8	-0.8
3. Stock-flow adjustment	**0.0**	**-0.5**	**-0.9**	**-0.7**	**-0.2**	**-0.3**	**0.2**
Of which:							
Cash/accruals difference		0.0	-0.10		-0.2	0.10	
Net accumulation of financial		0.1	-0.80		-0.2	-0.30	
of which privatisation proceeds			0.00		n.a	0.00	
Valuation effect & residual		-1.9	-0.80		-1.8	-1.80	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual

Source :

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

3.3. Measures underpinning the draft budgetary plan

The Draft Budgetary Plan and the Commission 2014 autumn forecast both foresee a reduction in the general government budget deficit from 2014 to 2015. According to both projections, this will be the result of revenue decreases (both nominally and in percentage of GDP) and even more sizeable expenditure decreases. Revenue decreases are mainly due to policy measures such as labour tax decreases and the ending of some temporary measures in 2014, e.g. an opportunity for taxpayers to withdraw money from special investment vehicles (that were established to postpone the taxation of severance payments). Expenditure decreases (as a percent of GDP) are partly the result of policy measures and partly of the stronger increase in economic activity in 2015 compared to 2014, resulting in lower social security expenditure such as unemployment benefits.

Almost all of the deficit decreasing measures for 2015 had already been part of the coalition agreement of the current government or other agreements (including the EUR 6 bn consolidation package agreed upon in 2013) and had been incorporated in the baseline of the multi-annual path of the 2015 budget. Although estimates for the impact of the measures for 2015 are prudent, risks remain, in particular concerning the consolidation planned through the decentralisation of parts of social security and long-term care.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by general government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2014	**2015**	**2016**
Taxes on production and imports	0.0	-1.1	-1.0
Current taxes on income, wealth,	0.0	0.0	0.0
Capital taxes	0.0	0.0	0.0
Social contributions	0.0	0.0	0.0
Property Income	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total	0.0	-1.1	-1.0

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.
Source: Draft Budgetary Plan 2015

B. Discretionary measures taken by general government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2014	**2015**	**2016**
Compensation of employees	0.0	0.0	0.0
Intermediate consumption	0.6	0.0	0.0
Social payments	0.1	0.8	0.3
Interest Expenditure	0.0	0.0	0.0
Subsidies	0.5	0.1	0.0
Gross fixed capital formation	0.0	0.1	0.2
Capital transfers	0.0	0.0	0.0
Other	-2.4	-2.8	-2.1
Total	-1.2	-1.8	-1.6

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.
Source: Draft Budgetary Plan 2015

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

The Netherlands is currently subject to the preventive arm of the Stability and Growth Pact. This implies that it has to maintain the fiscal position at the MTO, which was reached in 2013, and to make sufficient progress towards meeting the debt benchmark during the transition period. The Draft Budgetary Plan confirms the commitment of the Netherlands to comply with the relevant rules of the Stability and Growth Pact and to implement measures to address the Council recommendation in the area of public finances addressed to the Netherlands in the context of the European Semester (Box 2).

Box 2. Council recommendations addressed to the Netherlands

On 8 July 2014, the Council addressed recommendations to the Netherlands in the context of the European Semester. In particular, in the area of public finances, following the correction of the excessive deficit, the Council recommended to the Netherlands to take action to reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,5 % of GDP based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, Netherlands was recommended to significantly strengthen the budgetary strategy to ensure reaching the medium-term objective and maintain it thereafter, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. The Council also recommended Netherlands to protect expenditure in areas directly relevant for growth such as education, innovation and research.

4.1. Compliance with the debt criterion

The Netherlands corrected its excessive deficit in 2013[5]. Since it had been in EDP in November 2011[6], the Netherlands is subject to the transitional arrangements as regards compliance with the debt reduction benchmark. The transition period runs from 2014 to 2016. During this time, the Netherlands is required to achieve the minimum linear structural adjustment to comply with the debt benchmark at the end of that transition period.

The Draft Budgetary Plan does not provide sufficient information to assess compliance with the minimum linear structural adjustment. Based on the Commission 2014 autumn forecast the Netherlands is making sufficient progress towards compliance with the debt rule in both 2014 and 2015 (Table 6). As indicated in Section 3.2, negative risks to the debt projections (and to the compliance with the debt benchmark) are small and are related to the risks to the general government budget balance.

[5] The Council decided in June 2014 to abrogate decision 2010/287/EU that an excessive deficit existed in the Netherlands.

[6] The Council decided in 2009 that an excessive deficit existed in the Netherlands (Council Decision 2010/287/EU of 2 December 2009 - OJ L 125, 21.5.2010, p. 42).

Table 5. Compliance with the debt criterion*

	2014		2015	
	DBP	COM	DBP	COM
Gap to the debt benchmark [1,2]	n.r.	n.r.	n.r.	n.r.
Structural adjustment [3]	-0.3	0.1	0.1	-0.3
To be compared to:				
Required adjustment [4]	n.a.	-0.3	n.a.	-0.6

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that – if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (DBP) budgetary projections for the previous years are achieved and that GDP growth follows COM (DBP) forecast.

Source :

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

* An ex-ante assessment of planned compliance with the debt criterion can be assessed based on the DBP only for the concerned countries providing extended data series in the DPB on a voluntary basis, as agreed at the EFC-A on 22 September.

4.2. Compliance with the MTO

According to the recalculated structural balance[7] in the Draft Budgetary Plan, the Netherlands has reached, within a margin of 0.25% of GDP, its MTO in 2013. Accordingly, it has to maintain its structural balance at the MTO in the years thereafter and to respect the expenditure benchmark.

Structural balance and compliance with the expenditure benchmark

In the Draft Budgetary Plan, the 2014 structural deficit of the general government recalculated using the commonly agreed methodology, deteriorates by 0.3 pp. to 1% of GDP. This points to a possible deviation from the requirement of a stable structural balance to maintain the MTO. As for 2015, the (recalculated) structural balance in the Draft Budgetary Plan is expected to improve by 0.1 pp., thus, slightly above the MTO. As the deterioration of the structural balance in 2014 is expected to be larger than the improvement in 2015, the average change in the recalculated structural balance over the two years is slightly below the requirement of maintaining the MTO position.

[7] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology.

According to the information provided in the Draft Budgetary Plan the growth rate of government expenditure, net of discretionary revenue measures, will be well below the reference medium-term rate of potential GDP growth (currently 0.9%) in both 2014 and 2015.

Hence, based on the Draft Budgetary Plan, both indicators show compliance in 2015 but the picture is mixed in 2014 and an overall assessment is warranted. The structural balance indicator appears to be significantly influenced by a drop in the tax revenue elasticity, due to, on the one hand, a relatively tax-poor recovery and, on the other hand, temporary revenue measures. The expenditure benchmark is affected much less by these developments and it also better reflects the sizeable (expenditure) measures the government has been taking. Therefore, the expenditure benchmark appears to be a better indicator of the country's underlying budgetary position, pointing to compliance.

This conclusion also holds when using the Commission 2014 autumn forecast. The structural balance[8] is estimated to deviate from the MTO by more than 0.25pp of GDP as it worsens from 2014 to 2015 by a ¼ pp of GDP. Also in the Commission 2014 autumn forecast the average change in the structural balance over the two years in this case falls slightly short of the requirement to stabilise the structural balance. At the same time, the expenditure benchmark is met in both 2014 and 2015 also according to the Comission forecast.

Following an overall assessment of the Netherlands' Draft Budgetary Plan, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures the Netherlands is expected to be in line with the requirements of the preventive arm of the Pact in both 2014 and 2015.

On the basis of this assessment, it also appears that the Netherlands is expected to comply with the recommendations addressed to it by the Council on 8 July 2014.

[8] Neither the Draft Budgetary Plan nor the Commission 2014 autumn forecast expect any relevant one-offs or other temporary measures in 2014 or 2015. The estimated output gaps for both years are also the same in the Draft Budgetary Plan and the Commission 2014 autumn forecast.

Table 6: Compliance with the requirements of the preventive arm of the Stability and Growth Pact

(% of GDP)	2013	2014		2015	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-0.6	-0.5		-0.8	
Structural balance based on freezing (COM)	-0.6	-0.5		-	
Position vis-a -vis the MTO[3]	Not at MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2013**	**2014**		**2015**	
	COM	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]	n.a. in EDP in 2013	0.0		0.0	
Change in structural balance[5]		-0.3	0.1	0.1	-0.3
One-year deviation from the required adjustment after considering the relevant factors [6]		-0.4	0.0	0.1	-0.3
Two-year average change in structural balance[5]		n.a. in EDP in 2013		-0.1	-0.1
Two-year average deviation from the required adjustment after considering the relevant factors [6]				-0.2	-0.2
Expenditure benchmark pillar					
Applicable reference rate[7]	n.a. in EDP in 2013	0.9		0.9	
One-year deviation [8]		1.3	0.4	0.7	0.1
Two-year average deviation [8]		n.a. in EDP in 2013		1.0	0.2
Conclusion					
Conclusion over one year	n.a. in EDP in 2013	Overall assessment	Compliance	Compliance	Overall assessment
Conclusion over two years		n.a. in EDP in 2013		Overall assessment	Overall assessment

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between Spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 28.).

[5] Change in the structural balance compared to year t-1. Ex post assessment (for 2013) is carried out on the basis of Commission 2014 spring forecast.

[6] The difference of the change in the structural balance and the required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[7] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t. The reference rates applicable to 2014 onwards have been updated in 2013.

[8] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Draft Budgetary Plan 2015 (DBP), Commission 2014 autumn forecast (COM), Commission calculations

5. IMPLEMENTATION OF FISCAL-STRUCTURAL REFORMS

The Draft Budgetary Plan contains information on the fiscal-structural sections of the Council Recommendations of 8 July 2014, assessed in this section. It provides details on the measures planned and taken to address these recommendations and to ensure reaching the national Europe 2020 targets. Most of the measures were already known at the time of the 2014 Stability Programme and 2014 National Reform Programme but adoption and implementation of many measures have progressed.

To comply with the relevant part of the Council recommendation on public finances, public expenditure on education (COFOG 9) is safeguarded from expenditure cuts: spending is expected to remain at 5.5% of GDP in 2015.

The statutory retirement age in the first pillar will be increased in steps to 67 years and subsequently linked to life expectancy. The government is also about to decentralise substantial parts of the social security system to municipalities, which it hopes would improve the efficiency of the system and would have a substantial positive effect on public finances.

Concerning the housing market, the government has introduced a number of measures with substantial effects on market functioning and public finances in the long run. In the long term, the ensuing limitation in mortgage interest deductibility will substantially reduce the fiscal subsidy granted to mortgage-financed housing. Moreover, the limit that can be insured under the National Mortgage Guarantee Scheme will be reduced in steps to EUR 225.000 as of 1 July 2016. This should further reduce the exposure of the government to mortgage-related risks.

The government is also taking measures to adress the tax wedge (Box 3).

Box 3. Addressing the tax wedge

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed its commitment to effectively reduce the tax burden on labour. It will take stock of Member States' plans for reductions of the tax burden when discussing the draft budgetary plans.

In the context of the European Semester, the Netherlands was issued the recommendation to "take further measures to enhance labour market participation particularly among people at the margins of the labour market and to reduce tax disincentives on labour".

The tax wedge in the Netherlands is below the weighted EU–average. The tax wedge for a single person without children earning 50% of the average wage in 2013 was 27.8% compared to an EU average of 34%, for 67% of the average wage it was 32.1% (EU average: 37.7%) and for the average wage it was 36.9% (EU average: 41.1%). However, non-tax compulsory payments are very high in the Netherlands pushing up the overall tax wedge to 51.8% for the average wage. While the overall employment rate is well above the EU average, the average number of hours worked per worker is the lowest in the EU.

The Netherlands' Draft Budgetary Plan contains a plan to curb the growth of labour tax in 2015. The employee tax credit will be increased further. In addition to this, it will be refocused to improve incentives to work for lower and middle income workers. This approach limits the negative budgetary effects while keeping the significant positive effect the credit has on labour supply of household with lower and middle incomes. Furthermore, the increase in the tax rate of the first income tax bracket (temporarily reduced in 2014) will be lower than foreseen in the coalition agreement. As part of the overall multiannual consolidation strategy, these measures are mainly offset by expenditure decreases. The measures constitute a growth-friendly tax reform and decrease the tax wedge particularly for low wage earners. They are not, however, expected to have a substantial impact.

Additionally, the Draft Budgetary Plan states that the government is exploring options for a comprehensive tax reform. This debate is currently at a very early stage. A comprehensive tax reform could prove ambitious if it were to contain a substantial shift of taxation from labour to, for example, housing and environmental taxation.

6. OVERALL CONCLUSION

Following an overall assessment of the Netherlands' Draft Budgetary Plan for 2015, the Netherlands is expected to remain at the MTO in both 2014 and 2015. The Netherlands is also making sufficient progress towards compliance with the debt criterion in 2014 and 2015.

On the basis of this assessment, it also appears that the Netherlands is expected to make some progress with regard to the fiscal-structural issues of the other Country-Specific Recommendations addressed to it by the Council on 8 July 2014.