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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING THE NETHERLANDS

3. On the basis of the Draft Budgetary Plan for 2016 submitted on 9 October 2015 by the Netherlands, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. 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 budgetary objective (MTO). As the debt ratio was 67.9% of GDP in 2013 (the year in which the Netherlands corrected its excessive deficit), during the three years following the correction of the excessive deficit, the Netherlands is also subject to the transitional debt rule.

5. The macroeconomic scenario underpinning the Draft Budgetary Plan shows growth accelerating to 2.0% in 2015 and picking up further to 2.4% in 2016, pointing to a somewhat more positive outlook than in the 2015 Stability Programme. This is explained by a better-than-expected GDP growth outturn in the first half of 2015, as well as by a more dynamic profile for domestic demand growth in 2016. The Commission 2015 autumn forecast expects a similar rate of GDP growth in 2015 as the Draft Budgetary Plan, but anticipates a more limited increase in GDP growth in 2016. This is principally due to a less supportive net external demand outlook compared to the Draft Budgetary Plan. Both the Draft Budgetary Plan and the Commission 2015 autumn forecast project inflation to accelerate to above 1% in 2016 from a low rate in 2015, with the Commission forecast expecting somewhat lower annual inflation in 2015 than the Draft Budgetary Plan. Overall, the Draft Budgetary Plan's macroeconomic assumptions appear plausible in 2015 and favourable thereafter.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the Netherlands Bureau for Economic Policy Analysis (CPB). The CPB is institutionally attached to, and mainly financed by, the Ministry of Economic Affairs but enjoys complete operational independence, guaranteed by law.

7. The Draft Budgetary Plan's forecast for the general government budget balance expects a somewhat higher deficit in both 2015 (-2.2% of GDP) and 2016 (-1.5% of GDP) than the Stability Programme. Notwithstanding a better short-term macroeconomic outlook, this is mainly due to lower revenues from gas production and the impact of sizeable discretionary policy measures in 2016. The (recalculated) structural balance of the Draft Budgetary Plan shows a marginal deterioration in 2016.

   The public finances of the Netherlands have benefitted from considerable interest rate windfalls in recent years. In 2016, the level of interest expenditure is expected to fall by a further 0.1% of GDP compared to 2015. Since 2012, interest rate windfalls have not been used to improve the structural balance, as they have been accompanied by a marked reduction in the planned structural primary effort over the 2012-16 period.

8. The Commission 2015 autumn forecast expects a general government deficit of 2.1% of GDP in 2015 and 1.5% of GDP in 2016, similar to the Draft Budgetary Plan. Risks to the headline deficit appear broadly balanced; stronger-than-expected domestic demand might potentially boost revenues in 2016 beyond current expectations, while unexpected refugee-related costs might increase expenditure somewhat. The greater deterioration in the structural balance in 2016 in the Commission forecast is due to the exclusion of a one-off measure in 2016 related to the implementation of the 2014 Own Resources Decision.

9. The Draft Budgetary Plan shows government debt falling from 68.2% of GDP in 2014 to 66.2% of GDP in 2016. This is a somewhat more favourable debt trajectory than expected in the Stability Programme or in the Commission 2015 autumn economic forecast; the latter anticipates debt levels to fall to 67.8% of GDP in 2016. This difference appears to be mainly due to more favourable stock-flow adjustments incorporated into the Draft Budgetary Plan projections.

10. Among the discretionary measures included in the Draft Budgetary Plan is a package of tax and benefit measures aimed at lowering the tax burden on labour, which has a deficit-increasing budgetary impact of 0.7% of GDP in 2016. Policy measures on the expenditure side are smaller in comparison. The Commission 2015 autumn forecast fully incorporates these measures, including the package to lower the tax burden.

11. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional debt rule. Based on the Commission 2015 autumn forecast, the Netherlands is making sufficient progress towards complying with the debt rule in 2015 and 2016 as the projected changes in the structural balance (-0.5% and -0.3% of GDP respectively) are above the requirements (-0.7% and -1.0% of GDP respectively).

12. The Netherlands was at its MTO (structural deficit of 0.5% of GDP) in 2014 and is required to continue adhering to it. Based on the Draft Budgetary Plan, the (recalculated) structural balance points to some deviation from the requirement in 2015, while the expenditure benchmark points to compliance. Therefore, an overall assessment is required. In view of revenue shortfalls caused by low gas production revenues and ongoing household deleveraging, the expenditure benchmark appears to be a better indicator of the fiscal effort at the current juncture, thus pointing to compliance. In 2016, both pillars point to compliance. However, the two-year average for 2015 and 2016 of the structural balance points to some deviation, whereas the expenditure benchmark also points to compliance over the two years.

Based on the same considerations as in 2015, the overall assessment points to compliance. Based on the Commission 2015 autumn forecast, there appears to be some deviation from the requirement in both 2015 and 2016 individually, as well as over 2015 and 2016 on average. Furthermore, the Commission forecast points to compliance with the expenditure benchmark in 2015 and 2016, warranting an overall assessment. As mentioned above, the expenditure benchmark appears to be a better indicator of the fiscal effort at the current juncture leading to the conclusion that the Netherlands is projected to be compliant both in 2015 and 2016.

13. The Draft Budgetary Plan incorporates a package of measures to lower the tax burden on labour. These measures start in 2016 and aim at reducing the tax wedge, including through increasing tax credits for employed persons and reducing income tax rates.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of the Netherlands, which is currently under the preventive arm and subject to the transitional debt rule, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to rigorously implement the 2016 budget.

The Commission is also of the opinion that the Netherlands has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

For the Commission
Pierre MOSCOVICI
Member of the Commission