Draft Budgetary Plan of the Netherlands

September 2016

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Introduction

This Draft Budgetary Plan presents the fourth budget of the Rutte-Asscher government. In recent years the government has implemented a combination of expenditure cuts and structural reforms. As a result, the Dutch public finances are now in better shape. According to projections by the CPB Netherlands Bureau for Economic Policy Analysis, the improvement of public finances will also continue in the years ahead.

In the budget for 2017 the government has made room for social priorities such as security, defense, healthcare, education and combating poverty. Additional investments in defense and security next year will contribute in the long term to stability in the Netherlands and abroad. In healthcare too, after years of substantial reforms, the government will make additional resources available. Furthermore, the government considers a fairly balanced income distribution among households to be of vital importance. Aside from ensuring the sustainability of government finances and strengthening the structure of the economy, this is the third pillar of the coalition agreement. It is for this reason that the government is structurally reducing the tax burden on citizens in such a manner that all groups, including economically active households, benefit recipients and retirees, will see their purchasing power increase next year. In the absence of these tax-relief measures, the purchasing power development of retirees and benefit recipients would have been negative.

The Netherlands remains fully committed to the European budgetary rules as laid down in the Stability and Growth Pact. Since the Netherlands' abrogation from the excessive deficit procedure in 2014, the rules in the preventive arm of the SGP apply. The preventive arm places demands on the development of the structural general government balance in relation to the Medium-term budgetary objective (MTO) and on the growth of public expenditure in relation to the expenditure benchmark. In 2017, the structural government balance of the Netherlands will move further towards the MTO of -0.5% of GDP. According to current projections, the structural general government balance amounts to -0.9% of GDP in 2016. This means an improvement of 0.4% of GDP is required to achieve the MTO in 2017. With a forecast structural government balance of -0.6% of GDP for 2017, the improvement in the structural balance deviates from this target by 0.1% of GDP, but the deviation is smaller than 0.5% of GDP, and is therefore classified as not significant. Cumulatively over 2016 and 2017, the structural government balance complies with the required development towards the MTO. Moreover, the structural government balance in 2017 is expected to be within the margin of 0.25 % of GDP around the MTO. Ex post, compliance with the MTO is assessed by the European Commission, keeping account of a margin of 0.25% of GDP. If the ex post outlook shows the same result, the Commission will assess that the Netherlands has reached its MTO.

Aside from the structural government balance, the expenditure benchmark is the second important criterion in the preventive arm. Expenditure growth for the Netherlands is forecast at 0.2pp in 2017. This development deviates from the required development of -0.2pp by 0.3% of expenditure (rounded off). This translates into 0.1% of GDP. This deviation is smaller than 0.5% of GDP, and is therefore considered not significant. Cumulatively over 2016 and 2017, expenditure growth is in line with the required development.

Finally, the Netherlands also complies with the debt rule. The debt is expected to fall from 63.4% in 2016 to 62.1% in 2017. This decline complies easily with the required decrease of the debt by one-twentieth of the difference between the debt level and the critical value of 60% of GDP. Therefore, this Draft Budgetary Plan ensures that the Netherlands remains within the requirements of the preventive arm of the SGP.

1. Macroeconomic Forecasts

The economic growth continues. The CPB projects an economic growth of 1.7% in both 2016 and 2017. However, the CPB has adjusted the projected growth rate downwards in comparison to the June projection as a result of the UK referendum on the future of that country in the EU. According to the CPB, the downward effect of the uncertainty of a Brexit on the economic growth of the Netherlands is 0.4pp in 2017. Nonetheless, the economic growth remains broadly based through increases in household consumption, exports and investments. Unemployment stabilizes at 6.2% in both 2016 and 2017. That is lower than the unemployment peak of 7.4% in 2014.

Exports increase by 3.2% in 2016 and by 3.1% in 2017. The positive contribution of exports to economic growth is being maintained, although (the uncertainty emanating from) the Brexit will have a dampening effect on export growth, particularly in 2017.

Household consumption and investments also contribute to growth. Private consumption is increasing by 1.3% in 2016 and by 1.8% in 2017, while investments will rise by 5.0% in 2016 and 3.8% in 2017. Household consumption is stimulated through increases in real salaries and wages and positive developments in the housing market. In 2016, tax-relief measures will also contribute to the growth in household consumption. Developments in the housing market likewise contribute through their positive impact on investments. Nevertheless, uncertainty about a Brexit impacts the growth of domestic spending projected by the CPB.

Unemployment amounts to 6.2% of the labour force in 2016 and 2017. In 2015 unemployment was still 6.9%. According to the CPB there is still growth in employment (demand for labour), but this growth is just about enough to match the concurrent growth of the labour force (the supply of labour). The working population grows by 1.0% in 2016 and by 0.8% in 2017, whereas the labour force grows by 0.3% in 2016 and by 0.7% in 2017. The relatively stable development of unemployment therefore conceals an ongoing rise in job opportunities and of the working population.

Table 0.i) Basic assumptions

	2015	2016	2017
Short-term interest rate (annual average)	0.0	-0.3	-0.4
Long-term interest rate (annual average)	0.7	0.2	0.1
USD/EUR exchange rate (annual average)	1.11	1.11	1.11
Nominal effective exchange rate	-2.1	2.9	0.1
World, excluding EU 28, GDP growth	3.5	3.5	4.0
EU 28 GDP growth	1.5	1.6	1.5
Growth of relevant foreign markets	3.8	3.4	3.2
World import volumes, excluding EU	2.2	2.4	3.1
Oil prices (Brent, USD/barrel)	52	44	51

Table 0.ii) Main assumptions

	2015	2016	2017
1. External environment			
a. Prices of commodities (Raw materials excluding energy (HWWI), Euro)	-42.7	-13.2	13.8
b. Spreads over the German bonds	0.2	0.2	0.2

2. Fiscal policy			
a. General government net lending / net borrowing	-1.9	-1.1	-0.5
b. General government gross debt	65.1	63.4	62.1
3. Monetary policy / Financial sector / interest rate assumptions			
a. Interest rates:			
i. Euribor	0.0	-0.3	-0.4
ii. Deposit rates			
iii. Interest rates for loans			
iv. Yields to maturity of 10 year government bonds	0.7	0.2	0.1
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. Demographic trends			
a. Evolution of working-age population	0.4	0.3	0.7
b. Dependency ratios	70.2	70	70.1
5. Structural policies			

Table 1.a. Macroeconomic prospects

		2015	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
	ESA Code	Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	676.5	2.0	1.7	1.7			
Of which:								
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth								
2. Potential GDP			1.0	1.3	1.4	1.5	1.5	1.5
Contributions:								
- labour			0.3	0.5	0.5			
- capital			0.4	0.5	0.6			
- total factor productivity			0.3	0.3	0.4			
3. Nominal GDP	B1*g		2.0	2.2	2.5	2.6	2.8	3.1
Components of real GDP								
4. Private final consumption expenditure	P.3	301.8	1.8	1.3	1.8			
5. Government final consumption expenditure	P.3	171.4	0.2	0.8	1			
6. Gross fixed capital formation	P.51	131.4	9.9	6	2.6			
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-1.0	-0.6	-0.2	0.2			
8. Exports of goods and services	P.6	557.9	5.0	3.2	3.1			
9. Imports of goods and services	P.7	485.0	5.8	3.7	3.8			
Contributions to real GDP growth								
10. Final domestic demand		604.7	2.6	1.9	1.6			

11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-1.0	-0.6	-0.2	0.2			
12. External balance of goods and services	B.11	72.9	0.0	-0.1	-0.2			

1. Base year of real GDP is 2015

Table 1.b. Price developments

		2015	2015	2016	2017	2018	2019	2020
	ESA Code	Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator			0.1	0.5	0.9	0.9	1.1	1.3
2. Private consumption deflator			0.0	0.3	0.6			
3. HICP			0.2	0.0	0.5			
4. Public consumption deflator			-0.6	0.8	0.9			
5. Investment deflator			0.1	0.5	0.6			
6. Export price deflator (goods and services)			-2.9	-2.2	1.7			
7. Import price deflator (goods and services)			-3.6	-2.5	1.8			

Table 1.c. Labour market developments

		2015	2015	2016	2017
	ESA Code	Level	rate of change	rate of change	rate of change
1. Employment, persons[1]		8791.8	0.9	1.0	0.7
2. Employment: hours worked[2]		12504.7	0.5	1.0	0.7
3. Unemployment rate (%)[3]		614	6.9	6.2	6.2
4. Labour productivity, persons[4]			1.0	0.7	1.0
5. Labour productivity, hours worked[5]			1.1	0.6	0.9
6. Compensation of employees	D.1	331.8	1.2	3.6	2.6
7. Compensation per employee		37.7	0.8	2.3	2.0

1/ Occupied population, domestic concept national accounts definition.

2/ National accounts definition.
3/ Harmonised definition, Eurostat; levels.
4/ Real GDP per person employed.
5/ Real GDP per hour worked.

Table 1.d. Sectoral balances

		2015	2016	2017
	ESA Code	% of GDP	% of GDP	% of GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	8.5	8.7	8.2
Of which:				
- Balance on goods and services		10.8	10.5	10.2
- Balance of primary incomes and transfers		-0.4	-0.4	-0.3
- Capital account		-1.9	-1.4	-1.6
2. Net lending/net borrowing of the private sector	B.9	10.3	9.7	8.8
3. Net lending/net borrowing of general government	B.9	-1.9	-1.1	-0.5
4. Statistical discrepancy				

2. Budget objectives

The government's Coalition Agreement is based on three pillars, which includes the improvement of public finances. Since the crisis, public finances have significantly improved under the influence of reforms and a recovering economy. The budget deficit and government debt will continue to fall in 2016 and 2017. Improved public finances provide the government with room to increase expenditures for social priorities and policy to ensure a balanced development of purchasing power. The government has made € 1.55 billion structurally available for expenditure on security, defense, healthcare, education and for combating poverty, as well as € 1.1 billion for a balanced purchasing power development. With this package the structural government balance remains within the margins of the Stability and Growth Pact.

General government balance
The widespread economic recovery and reforms of recent years ensure an improvement of public finances. This improvement can be seen in the government deficit. The general government balance improves from a deficit of -1.1% of GDP in 2016 to -0.5% of GDP in 2017. The table below shows which factors contribute to this improvement between 2016 and 2017, the so-called horizontal development.

Table 2.1	% of GDP
General government balance 2016	**-1.1**
Denominator effect	0.0
Tax revenue and social contributions	1.3
Healthcare expenditure	-0.2
Expenditure on Social security and labour market policy	-0.2
Wages and price indexation	-0.1
Contributions to the EC	-0.2
Homogeneous Group for International Cooperation	0.1
Municipalities Fund/Provinces Fund/VAT Compensation Fund	0.1
Cash-accrual corrections	-0.3
Natural gas revenues	0.0
Interest on government deficit	0.1
Other	0.1
General government balance 2017	**-0.5**

Tax revenues and social security contributions increase as a result of the economic recovery. This increase accounts for the largest share of improvement of the general government balance. Healthcare expenditure and expenditures for social security will rise in 2017, and both will lead to a deterioration of the general government balance by 0.2% of GDP. The same applies for the indexation of part of the public expenditure for wage and price developments, a deterioration of 0.1% of GDP. In addition, in 2017 the Netherlands is expected to contribute € 1.6 billion more to the European Union than this year, which causes the deficit to rise by 0.2% of GDP. That rise is mainly caused by the delayed ratification of the so-called Own Resources Decision. The balance in 2017 also improves when compared to 2016 due to lower expenditure for the Homogeneous Group for International Cooperation (HGIS Culture budget, € 1.0 billion) and the Municipalities Fund, Provinces Fund and VAT Compensation Fund (€ 0.5 billion). Financing costs for the general government debt in 2017 are also expected to be more favourable for the treasury than in 2016.

Finally, so-called cash-accrual corrections deteriorate the balance by € 2.3 billion or 0.3% of GDP. A large part of this effect stems from government expenditure on public transportation cards for students. The central government conducts a cash-based accounting system, but has to report to the European Union as if the accounting system is administered on an accrual-based system. The cash-accrual corrections adjust the general government balance for differences between cash and accrued expenses and revenue at the time of the transaction.

Preventive arm

Since the Netherlands' abrogation from the excessive deficit procedure in 2014, the rules in the preventive arm of the SGP apply. The European Commission maintains two criteria to monitor a Member State's compliance with the requirements: the structural government balance and the expenditure benchmark.

Every three years the European Commission determines the MTO, in the form of a minimum structural balance to which Member States must comply. For the Netherlands a minimum structural government balance of -0.5% of GDP applies. The structural government balance is the actual government deficit, adjusted for influences of the economic cycle and incidental items of budgetary revenues and expenditures, the so-called one-offs. If the MTO has not yet been achieved, Member States must show that their structural government balance improves sufficiently towards the MTO.

In order to give Member States more certainty in their budget preparation for the economic and budgetary projections to which they must comply according the European budgetary rules, the Commission freezes the required budgetary effort for a certain year on the basis of the spring forecast. In its country-specific recommendation in May of this year, the Commission froze the required budgetary effort for 2017 at an improvement of the structural government balance of 0.6% of GDP.[1]

However, if it is apparent from more recent information that implementation of the full required budgetary effort is no longer required to achieve the MTO, the Commission adjusts the required effort downwards.[2] That is the case in this Budget Memorandum for the Netherlands. In 2016 the structural government balance is projected at -0.9% of GDP. In order to achieve the MTO of -0.5% of GDP in 2017, an effort of 0.4% of GDP is required. This effort is smaller than the required budgetary effort of the country-specific recommendation. The government uses the effort of 0.4% of GDP to calculate whether the Netherlands complies with the European budgetary rules in 2017. Ultimately, a projection by the Commission should confirm the required effort.

In 2017, the Netherlands is forecast to have a structural government deficit of 0.6% of GDP. The actual deficit of 0.5% of GDP is first reduced by 0.2% of GDP, because, based on the output gap, the Dutch economy performs less well than its potential. On balance the *one-offs* lead to a deterioration of 0.3% of GDP of the structural government balance. In 2017, this relates to proceeds of the measure allowing for a fiscally attractive release of self-administered pensions. In comparison to 2016, the structural government balance will improve by 0.3% of GDP in 2017. This is a deviation of 0.1% of GDP from the required effort of 0.4% of GDP. A maximum deviation of 0.5% of GDP is permitted. This means that the development of the structural government balance falls within the permitted margin applied in the preventive arm of the SGP. Furthermore, the Commission also considers the cumulative development of the structural government balance. In 2016 the Netherlands complies with the requirements with an underspending of 0.3% of GDP. Cumulatively over 2016 and 2017, this means an underspending of 0.2% of GDP (0.3pp in 2016 and -0.1pp in 2017).

Aside from the structural government balance, the expenditure benchmark is the other important criterion in the preventive arm. The expenditure benchmark dictates that expenditures by the Dutch government must fall by 0.2% in 2017 relative to 2016. It is expected that public expenditure will rise in 2017 by 0.2% in relation to the previous year. Rounded off, this is a difference of 0.3pp. When translated into a percentage of the GDP, expenditures increase by 0.1pp

[1] Council of the European Union (2016). "Recommendations by the Council" in the Official Journal of the European Union.
[2] See European Commission (2016). Vade Mecum on the Stability and Growth Pact, p. 38

more than prescribed in the rule. This deviation falls within the applicable margin of 0.5% of GDP. In 2016, the Netherlands complies with the criterion of an underspending of 0.3% of GDP. This means a cumulative underspending of 0.2% of GDP for 2016 and 2017.

Having a forecast debt of 62.1% of GDP in 2017, the Netherlands has a relatively low general government debt in comparison to many other EU Member States. Although the general government debt is just above the reference value of 60% of GDP, the Netherlands is approaching this reference value as established in the Stability and Growth Pact.

Table 2.a. General government budgetary targets broken down by subsector

		2016	**2017**	**2018**	**2019**	**2020**
	ESA Code	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (+) / net borrowing (-) by subsector						
1. General government	S.13	-1.1	-0.5	-0.2	0.4	0.6
2. Central government	S.1311	-1.4	-0.7			
3. State government	S.1312					
4. Local government	S.1313	-0.3	-0.3			
5. Social security funds	S.1314	0.6	0.5			
6. Interest expenditure	D.41	1.1	1.0			
7. Primary balance		0.0	0.5			
8. One-off and other temporary measures		-0.3	-0.3	-0.1	-0.1	0.0
9. Real GDP growth (%) (= 1 in table 1.a)		1.7	1.7			
10. Potential GDP growth (%) (= 2 in table 1.a)		1.3	1.4	1.5	1.5	1.5
Contributions:						
- labour		0.5	0.5			
- capital		0.5	0.6			
- total factor productivity		0.3	0.4			
11. Output gap (% of potential GDP)		-0.7	-0.2	0.1	0.2	0.3
12. Cyclical budgetary component (% of the potential GDP)		-0.4	-0.2	0.1	0.1	0.2
13. Cyclically-adjusted balance (1 - 12) (% of the potential GDP)		-0.7	-0.3			
14. Cyclically-adjusted primary balance (13 + 6) (% of the potential GDP)		0.4	0.7			
15. Structural balance (13 - 8) (% of the potential GDP)		-0.9	-0.6	-0.4	0.2	0.4

General government debt

In 2017 the general government debt will decrease to 62.1% of GDP from a level of 63.4% of GDP at the end of 2016.

Table 2.2 % of GDP

General government debt end 2016	**63.4**
Denominator effect	-1.6
Budget deficit 2017	0.5
Interest rate derivatives	-0.2
Treasury banking	-0.3
Net government participations	0.0
Student loans	0.3
Correction for change in cash-accrual	0.0
Other financial transactions	0.0
General government debt end 2017	**62.1**

The general government debt is expected to rise by € 1.7 billion in 2017 and fall by 1.3% of GDP vis-à-vis 2016 to 62.1% of GDP. This shift can be fully explained by the so-called denominator effect. The GDP grows faster than the debt, so that the debt drops as a percentage of the GDP.

The budget deficit causes a higher debt, which, in 2017 amounts to € 3.3 billion or 0.5% of GDP. The government is expecting to receive interest amounting to € 1.5 billion from interest derivatives. The debt forecast for next year also assumes an amount of € 2.1 billion for which the government does not need to borrow funds, because treasury banking participants put this amount aside at the treasury. In 2017, the government is expecting to grant € 2.0 billion for student loans in the student borrowing system, which will cause the debt to rise by 0.3% of GDP.

Partly thanks to government efforts the general government debt, as a percentage of GDP, is lower than at the beginning of this government term. But the debt is still considerably higher than before the crisis. A year prior to the recession the debt amounted to 42.4% of GDP. In the 2009 Budget Memorandum the expected gross government debt as a percentage of GDP should have fallen to its lowest level since 1814.[3] Eight years later this Budget Memorandum assumes that the debt next year will amount to 62.1% of GDP.

Table 2.b. General government debt developments

		2016	**2017**	**2018**	**2019**	**2020**
	ESA Code	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Gross debt		63.4	62.1	60.5	58.3	55.9
2. Change in gross debt ratio		-1.7	-1.3			
Contributions to changes in gross debt						
3. Primary balance (= item 7 in Table 2.a.i)		0.0	0.5			
4. Interest expenditure (= item 6 in Table 2.a.i)	**D.41**	1.1	1.0			
5. Stock-flow adjustment		-2.8	-1.8	-1.8	-1.8	-1.8
Of which:						
- Differences between cash and accruals		0.1	-0.1			
- Net accumulation of financial assets		-1.2	-0.1			
Of which:						
- privatisation proceeds		-0.3	0.0			
- valuation effects and other		-1.4	-1.6			
p.m.: implicit interest on debt		1.7	1.5			
Other relevant variables						
6. Liquid financial assets		0.2	0.2			
7. Net financial debt (7=1-6)		63.2	61.9			
8. Debt amortization (existing bonds) since the end of the previous year		4.9	5.6			

[3] Parliamentary Papers II, 2008/2009, 31 700, no. 1

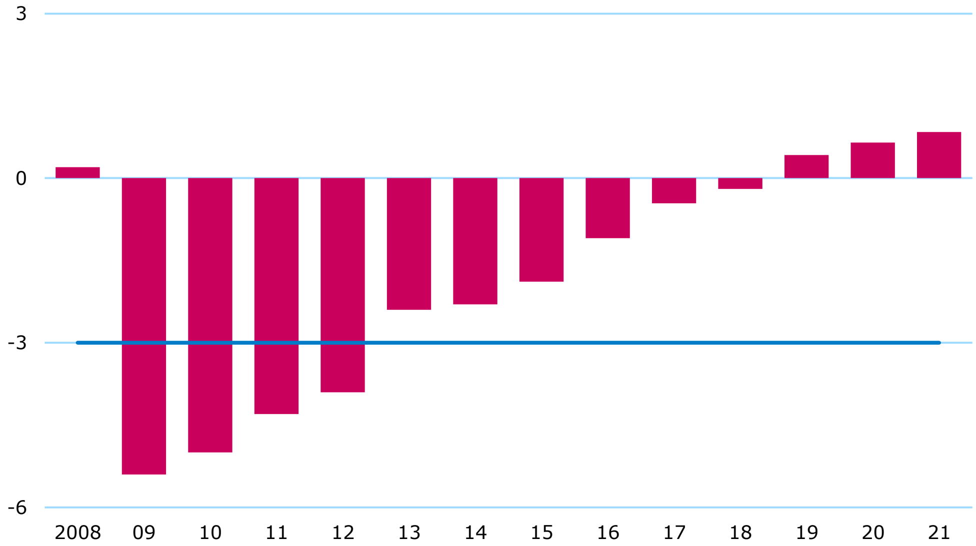
9. Percentage of debt denominated in foreign currency*		1.6				
10. Average maturity*		7.7				

* position as at 1 September 2016

Public finances in the long term
In preparation of the forthcoming elections for the Lower House of the Dutch Parliament, an economic forecast was published that looks ahead to 2021, the so-called medium-term forecast (MLT).[4] The economic projection in the MLT has technically been incorporated in the budgets. The budgetary projection that stems from this is explained in this paragraph.

Taking an average economic growth of 1.7% per annum, and on the assumption that current policy remains unchanged, the general government balance is expected to improve to a surplus of 0.8% of GDP in 2021. As a comparison: the projection for 2017 still shows a deficit in the national budget of 0.5% of GDP.

Figure 2.1 Development of 2008-2021 general government balance

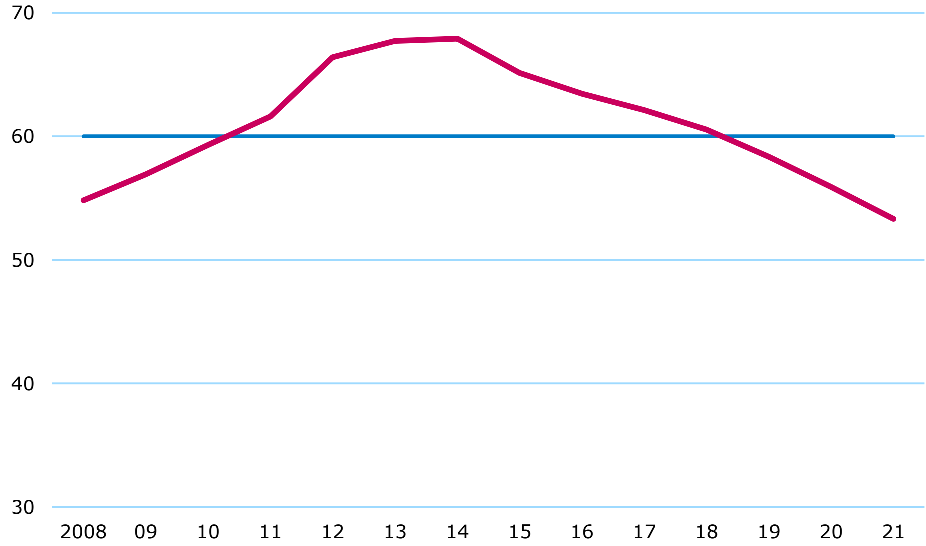


Source: CPB, Ministry of Finance

Likewise, the projection for the structural general government balance in 2021 is slightly positive. As from 2018 the structural government balance will be above the minimum limit of -0.5% of GDP, as prescribed by the SGP. A year later the general government debt drops to below the critical value of 60% of GDP, as shown in figure 2.2. At the end of the forthcoming government term the debt is expected to be approximately 53% of GDP.

[4] CPB (September 2016), 2018-2021 Medium-term forecast

Figure 2.2 Development of 2008-2021 general government debt



Source: CPB, Ministry of Finance

With a positive sustainability balance of 0.4% of GDP, as calculated by the CPB, Dutch public finances are sustainable in the long run. That means that the current level of public services remains affordable, without further adjustments to total revenues and expenditure and maintaining a stable general government debt. Besides, the government still has (limited) room for budgetary manoeuvre to increase expenditures or absorb setbacks on the revenue side. That room for budgetary manoeuvre in the sustainability of public finances is important, because if for example, life expectancy rises by two years, the sustainability balance falls by 0.3% of GDP. The government is and remains committed to the sustainability of government finances through a combination of measures which enhance economic growth and through prudent budgetary policy.

Guarantees

A guarantee is a commitment by the State to cover the costs incurred by a certain party when a certain risk is materialised. Hence guarantees and the damages which could emanate from them are a risk for public finances. For this reason the government tightened the Dutch guarantee policy at the end of 2013. The already existing "*no, unless*" policy was improved to better take implicit risks into account. For every decision concerning contingent liabilities the government ascertains the risks, formulates adequate control measures and involves parliament. The framework for guarantees also places demands on the design of guarantees such as a break-even premium and an evaluation every five years. This framework for guarantees has a preventive and alerting effect, which makes the risks of apparently 'free' policies transparent and manageable.

In 2017 the State guarantees a total amount of € 198 billion (28% of GDP). The majority of these guarantees stem from international agreements, such as guarantees linked to the European debt crisis, international development banks and the International Monetary Fund (IMF). International guarantees comprise € 151 billion (21.3% of GDP) of the outstanding guarantees. The other € 47 billion (6.7% of GDP) are national guarantees.

Table 2.c Contingent liabilities

	2016	2017
	% of GDP	% of GDP
Public guarantees	**28.5**	**28.0**
Of which: nationally	**6.7**	**6.7**
Facility for nuclear disasters (*WAKO*)	1.4	1.4
Guarantee De Nederlandsche Bank (DNB)	0.8	0.8
Guarantee for loans to SMEs (*BMKB*)	0.3	0.3
Export credit insurance (*EKV*)	2.3	2.2
Single Resolution Fund	0.6	0.6
Other	1.2	1.3
Of which: internationally	**21.9**	**21.3**
Asian Infrastructure Investment Bank	0.1	0.1
European Financial Stability Facility (EFSF)	7.2	7.0
European Financial Stabilisation Mechanism (EFSM)	0.4	0.4
European Stability Mechanism (ESM)	5.1	5.0
DNB - participation in IMF capital	6.5	6.3
European Bank for Reconstruction and Development (EBRD)	0.1	0.1
European Investment Bank (EIB)	1.5	1.4
EU balance-of-payments (BoP) support	0.3	0.3
World Bank	0.7	0.7

3. Expenditure and revenue projections under the no-policy change scenario

The following table shows the total expected government revenue and expenditure at unchanged policies in conformity with the 2017 Budget Memorandum.

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components.

		2016	**2017**
General government (S.13)	ESA Code	% of GDP	% of GDP
1. Total revenue at unchanged policies	TR	43.4	43.8
of which			
1.1. Taxes on production and imports	D.2	11.4	11.5
1.2. Current taxes on income, wealth, etc.	D.5	11.6	12.3
1.3. Capital taxes	D.91	0.2	0.3
1.4. Social contributions	D.61	15.1	14.8
1.5. Property income	D.4	1.2	1.2
1.6. Other		3.8	3.8
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.2	38.7
2. Total expenditure at unchanged policies	TE	44.6	44.3
of which			
2.1. Compensation of employees	D.1	8.9	8.7
2.2. Intermediate consumption	P.2	5.9	5.9
2.3. Social payments	D.62	21.9	21.8
of which Unemployment benefits	D.632	2.0	1.9
2.4. Interest expenditure	D.41	1.1	1.0
2.5. Subsidies	D.3	1.3	1.3
2.6. Gross fixed capital formation	P.51	3.4	3.3
2.7. Capital transfers	D.9	0.7	0.8
2.8. Other		1.4	1.6

4. Expenditure and revenue targets

The tables below give a more detailed view of projected general government expenditures and revenues in 2016 and 2017.

Table 4.a General government expenditure and revenue targets, broken down by main components.

		2016	2017
General government (S.13)	ESA Code	% of GDP	% of GDP
1. Total revenue at unchanged policies	TR	43.4	43.8
of which			
1.1. Taxes on production and imports	D.2	11.4	11.5
1.2. Current taxes on income, wealth, etc.	D.5	11.6	12.3
1.3. Capital taxes	D.91	0.2	0.3
1.4. Social contributions	D.61	15.1	14.8
1.5. Property income	D.4	1.2	1.2
1.6. Other		3.8	3.8
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38.2	38.7
2. Total expenditure at unchanged policies	TE	44.6	44.3
of which			
2.1. Compensation of employees	D.1	8.9	8.7
2.2. Intermediate consumption	P.2	5.9	5.9
2.3. Social payments	D.62	21.9	21.8
	D.632		
of which Unemployment benefits		2.0	1.9
2.4. Interest expenditure	D.41	1.1	1.0
2.5. Subsidies	D.3	1.3	1.3
2.6. Gross fixed capital formation	P.51	3.4	3.3
2.7. Capital transfers	D.9	0.7	0.8
2.8. Other		1.4	1.6

Table 4.b Amounts to be excluded from the expenditure benchmark

		2015	2015	2016	2017
	ESA Code	Level (billion)	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		1.2	0.2	0.2	0.2
2. Cyclical unemployment benefit expenditure[1]		1.5	0.2	0.0	0.0
3. Effect of discretionary revenue measures		-0.2	0	-0.1	0.5
4. Revenue increases mandated by law		-1.0	-0.1	0	0

1/ Unemployment Act (WW), self-employed assistance, implementation costs of the Employee Insurance Agency (UWV), 60+ unemployment benefits (IOW), mobility bonus for older beneficiaries and the occupationally disabled, BUIG and government implementation fund (UFO) receipts.

4.c.i) General government expenditure on education, healthcare and employment

	2016	2017

	% of GDP	% general government expenditure	% of GDP	% general government expenditure
Education	5.5	12.3	5.5	12.3
Healthcare	8.0	18.0	8.1	18.2
Employment*	0.4	1.0	0.4	0.9

*This item contains: Participation Budget Act and Sheltered Employment Act (*WSW*) (since 2015 via social participation fund), reintegration programmes occupationally disabled (*AO*), reintegration provisions for occupationally disabled, workforce participation 50+, sector plans, mobility bonus, training threshold, life-course transitional arrangement, career-break leave credit, contribution exemption for older employees, contribution reduction for youth, start-up deduction in case of disability, rebates for education, parental leave rebate and youth unemployment approach.

4.C.ii) Classification of functions of the government

Functions of the government		2016	2017
	COFOG Code	% of GDP	% of GDP
1. General public services	1	5.0	4.9
2. Defense	2	1.2	1.2
3. Public order and safety	3	1.9	1.7
4. Economic affairs	4	4.0	4.2
5. Environmental protection	5	1.4	1.4
6. Housing and community amenities	6	0.3	0.3
7. Health	7	8.0	8.1
8. Recreation, culture and religion	8	1.4	1.4
9. Education	9	5.5	5.5
10. Social protection	10	16.8	16.8
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	44.6	44.3

5. Discretionary budgetary developments

The government's Coalition Agreement is based on three pillars, which include the improvement of public finances. As a result of the government's extensive reform programme and the economic recovery in recent years, improvement of the government deficit is better than was expected in the Coalition Agreement. Next year the general government debt will fall, and it is well underway towards meeting the European budget critical value of 60% of GDP. In recent years the government deficit has improved significantly from 3.9% of GDP in 2012 to a projected 0.5% of GDP in 2017.

The European budgetary rules, which, just like the Dutch budgetary rules designed for sustainable long-term public finances, provide the government with room for new expenditures on social priorities and a balanced purchasing power effect. The government has structurally made € 1.55 billion available for security, defense, healthcare, education and for combating poverty, and the government is also structurally spending € 1.1 billion to achieve a balanced and positive purchasing power development.

The amount of € 2.7 billion is an augmentation on top of the expenditure and revenue framework. That means that public expenditures increase in real terms. With this augmentation, in some cases previously implemented cut-backs are reversed or budgetary issues (including terms of trade) are resolved.

With this package, development of the structural government balance and public expenditure remain within the margins of the Stability and Growth Pact.

Table 5a: 2017 package

In billion Euro; + deteriorates balance		**Expenses**	**Expenditure**
Social priorities	**€ 1.55 billion**	**0.05**	**1.5**
Security and Justice			0.5
Public Health, Welfare and Sport			0.4
Defense			0.3
Education, Culture and Science			0.2
Plan for destitute children			0.1
Other (intelligence & security services, promoting export and reservation)		0.05	0.0
Purchasing power	**€ 1.1 billion**	**0.4**	**0.7**
General tax credits		0.5	
Tax credit for the elderly		0.4	
Healthcare allowance		0.4	
Income tax		-0.1	
Employed person's tax credit		-0.5	
Compensation health insurance premiums		-0.2	
Rent allowance			0.6
Supplementary child benefit			0.1
TOTAL PACKAGE:	**€ 2.7 billion**	**0.5**	**2.2**

NB: this package will be in force in 2017; the effect for 2018 is the same as for 2017.

Social priorities

The government reserves € 450 million for the departmental budget of the Ministry of Security and Justice. That amount includes allocations to the police, where the budget is reinforced with almost € 250 million in 2017. These additional budgetary resources are not only being allocated to improve performance of the police, but also specifically to strengthen the position of community police officers. Information and security services will structurally be allocated more than € 35 million for counter-terrorism and cyber security. € 35 million has been allocated to further enhance the quality of administration of justice. The Public Prosecution Service will receive € 8 million in

2017 and € 14 million on a structural basis to fulfil various extra tasks. The government has also decided to refrain from further shutting down of prison facilities. Finally, the government is investing € 10 million in upgrading the skills of employees at the Custodial Institutions Agency (DJI).

In order to offer care providers room to improve the quality of care for the elderly, the intended cut-back of € 500 million for nursing home care has been cancelled. This reversal is covered for an amount of € 400 million by the package, and € 100 million is provided for within the Long-Term Care Act.

Improvements in the realm of national defense are the government's response to the (international) security situation and contribute in the long-term to stability in the Netherlands and abroad. € 300 million has been made available for defense, of which € 200 million is available for material and personal basic preparedness and proficiency of the armed forces. Since 2014 the government has added a phased budget to defense's departmental budget, structurally rising to € 870 million. € 100 million is being used to relieve defense in covering the terms of trade setback.

For education, € 200 million is made available annually for example, to improve equal opportunities, to reduce vocational education school fees for low-income families, for additional funding for children of asylum-seekers in their second year at primary school, culture and relaxing the cut-back on the lump sum.

Next year a further € 100 million will be made available for children who are growing up in poor households. This will allow these children to go on school trips, enrol for swimming lessons or buy sports gear.

Balanced purchasing power development

For the government's third pillar, achieving an equitable income distribution, € 1.1 billion has been made structurally available to improve the purchasing power of households. Of this amount, about € 570 million will structurally allocated for rent allowance. In addition, supplementary child benefits will be raised by approximately € 130 million, and there will also be an increase of about € 460 million for general tax credits, € 352 million for healthcare benefits, and about € 360 million in tax credits for the elderly. For coverage of the package, raising the threshold of the third tax bracket will be limited for approximately € 70 million, and the phasing-out limit and maximum employed person's tax credit will be reduced by approximately € 460 million. Additionally, approximately € 210 million compensation for higher health insurance premiums in the revenue framework will be used for coverage of the package. The package will ensure that the purchasing power of the economically active households, benefit recipients and retirees will generally increase next year.

6. Possible links between the draft budgetary plan and the targets set by the Union's Strategy for growth and employment and country-specific recommendations.

Table 6.a Country-specific recommendations (CSRs)

CSR number	Measures (actual progress/new in respect of NRP 2016)	Description of direct relevance
1. Restrict the deviation of the medium-term budgetary objective in 2016 and achieve an annual budgetary adjustment of 0.6% of GDP in 2017. *Focus public expenditure on prioritizing support of more investments in research and development.*	• In 2016 the structural government balance of the Netherlands improves further towards the MTO of -0.5% of GDP. In 2017, the structural government balance is forecast at -0.6% of GDP. This results in the structural government balance being within the MTO's margin of 0.25% of GDP. Compliance with the MTO is monitored ex post with observance of this margin. • On the European Innovation Scoreboard, the Netherlands has developed from being a follower of innovations to being a leader of innovations. Together with Denmark, Germany, Finland and Sweden, the Netherlands is one of the leading countries which scores at least twenty percent higher than the European average for 25 innovative strength indicators.	• The sustainable improvement of public finances is one of the key pillars of this government's Coalition Agreement. The Netherlands is fully committed to the European budgetary rules as laid down in the Stability and Growth Pact. • The step from being a follower of innovations to becoming a leader of innovations is an ambition that the government committed to in the 2016 Central Government Budget. It's the first time that the Netherlands is a leader of innovations instead of a follower of innovations and this, according to the progress report, is because of the amount of private investments made in research and development. Scientific research is indeed increasingly being transformed by the business community into products and services.
2. Tackle obstructions that still remain in the hiring of personnel on the basis of permanent contracts, and encourage the move from temporary to permanent contracts. *Restrict the excessive rise in the number of self-employed workers, partly as a result of fiscal distortions that facilitate self-employed labour, without posing a negative impact on entrepreneurship, and by promoting access to affordable social protection for those self-employed workers.*	• The government has implemented its aspiration to address false self-employment. As of 1 May 2016 the Declaration of Independent Contractor Status (VAR) has been discontinued and has been replaced by the Assessment of Employment Relationships Deregulation Act (*Wet DBA*). A transitional period applies until 1 May 2017.	• The main objective of the Assessment of Employment Relationships Deregulation Act is to bring about a balance between responsibilities of the commissioning party and the contractor, as well as improvements in enforcement possibilities, which will impede bogus self-employment. False self-employment is understood to be: someone who, on paper, enjoys the status of being a self-employed person, but is an employee in common practice. Effectively, the Declaration of Independent Contractor Status (VAR) methodology could only

		be enforced at the level of the contractor (the self-employed person). That is now also possible at the level of the commissioning party pursuant to the Assessment of Employment Relationships Deregulation Act (*Wet DBA*).
3. Take measures to make the second pillar of the pension scheme more transparent, intergenerationally more equitable and more shockproof. *Take measures to reduce the remaining distortions in the housing market and cut back on advantaging debts of householders, particularly by restricting the mortgage interest tax relief.*	• Consistent with the framework memorandum and the action plan, the government submitted the 'Perspectives Memorandum Future Pension Scheme' to the Lower House on 8 July 2016. In the Perspectives Memorandum the government presents various options for a future-proof pension scheme (including a corresponding transition framework and preconditions). Important aims and objectives include increasing the transparency of the system, improving alignment with the labour market and securing intergenerational equitability. The government, social partners, pension providers and supervisory bodies, empowered by the academic community and organisations for the youth and elderly, will continue working in the period ahead to make the new system possible by 2020. • As of 1 January 2017 the maximum Loan-to-value ratio will be reduced to 101%. In addition, as of 1 January 2017 the maximum mortgage interest tax deduction percentage is reduced by 0.5pp to 50%. The temporary increase of the threshold of the National Mortgage Guarantee (*NHG*) ends as of 1 January 2017. Then the threshold will be linked again to average house prices, as was the case before 2009.	• In the Perspectives Memorandum the government outlines the prospect of a new pension scheme. This is a scheme in which everyone who works can accrue an adequate pension. It is a scheme that is better attuned to the labour market, so that switching jobs does not have a undesirable influence on pension accrual. The prospect is a scheme which is more understandable and clearly defines what people can expect from their pension. A scheme in which people have confidence and which is more tailored for the characteristics and needs of participants, and simultaneously maintains the strong elements of the current system: the option to build up a pension collectively, in solidarity with others, and at relatively low costs. • By employing the measures mentioned on the left, the government will further reduce distortions in the housing market. In combination with the repayment requirement for mortgage interest tax relief, these measures ensure that the debts of households are restricted further in an equitable manner. In light of ongoing extensive reforms, the government does not envisage any additional measures.

Table 6.b Targets set by the Union's Strategy for growth and employment

National 2020 headline targets	Measures (actual progress/new in respect of NRP 2016)	Description of direct relevance to address the target
National 2020 employment target [80%]	• Work will be more financially rewarding due to a further increase of the employed person's tax credit in 2017. • In order to increase the chances for low-income earners in the labour market, the low-income benefit will be introduced as of 2017. This relates to a financial benefit for employers who employ or keep someone employed who earns the statutory minimum wage or slightly more. • From 2017 onwards, the budget for unemployment benefit services provided by the Employee Insurance Agency (*UWV*) will structurally be increased to € 160 million. This will enable the *UWV* to provide personal services to job seekers on unemployment benefit. In addition, in 2017 there will also be schooling vouchers available with which people can retrain themselves for a profession with better employment prospects. It increases the chance to resume work quickly. • Long-term unemployment among those aged over fifty is being addressed together with the social partners in a plan of action 'Prospects for the over-fifties', which kicks off in 2017. For this purpose, € 68 million has been reserved for 2017 and 2018.	• Facilitating both the supply (including making work more rewarding) and demand of labour through a combination of measures, is expected to have a positive effect on employment, particularly for the elderly and people who are in a vulnerable position in the labour market.
National 2020 R&D target [2.5%]	• See country-specific recommendation 1 in table 6.a.	• See country-specific recommendation 1 in table 6.a.

National target reduction of greenhouse gases **- non-ETS sectors [-16%]** **- ETS sectors [not applicable]**	• The CO_2 target for non-ETS sectors is expected to be realised. In the 2015 National Energy Survey, the Netherlands had a wide margin.	• Not applicable
National target for renewable energy [14%]	• On the basis of scaled-up agreements made between the parties in the Energy Agreement in December 2015 and April 2016, all 47 parties are convinced that the target of 14% renewable energy can be achieved by 2020. • Should the 2016 National Energy Survey, which will be published in October 2016, show that the target will not be achieved yet, a review will be carried out to establish which additional measures may be necessary and desirable.	• Not applicable
National energy efficiency target **[1.5% per annum]**	• On the basis of the 2015 National Energy Survey it has already been forecast that the target of 1.5% energy efficiency per annum will be achieved. It is not expected that this forecast will change with the 2016 National Energy Survey.	• Not applicable
National early school leaving target **[>8%]**	• The academic year 2016-2017 started with a follow-up action to counter school drop-outs, as described in the 2016 National Reform Programme.	• The measures must contribute to keeping the percentage of school drop-outs as low as possible. This action must ensure that there are fewer than 20,000 new early school-leavers in 2021.
National target for tertiary education [>40%]	• An elaboration of the 2015-2025 Strategic Agenda for Dutch Higher Education commenced in 2016.	• Measures to raise the quality of higher education and to guarantee accessibility, contribute towards maintaining the percentage of higher educated persons to being over 40%.

National target social inclusion and poverty [100,000 fewer *jobless households*]	• Structural additional budgetary resources for poverty and debt policy (since 2015 € 100 million) • Subsidy scheme for civil society organisations (€ 4 million in both 2016 and 2017). • SER (Social and Economic Council) survey into combination jobs • Request for SER-advice for reducing poverty among children. • From 2017 onward, the government will allocate € 100 million for the combating of poverty among children.	• More effective, efficient and sustainable combating by means of an integrated approach to poverty and debt. • Stronger cooperation between public and private organizations will result in better and more efficient reaching of target groups. • Broadening the understanding of groups with increased risk of poverty and social exclusion to improve the effectiveness of policy.

7. Divergence from latest Stability Programme

Table 7. Divergence from latest Stability Programme

		2015	2016	2017
	ESA Code	% of GDP	% of GDP	% of GDP
Target general government net lending / net borrowing	B.9			
Stability Programme		-1.8	-1.7	-1.2
Draft Budgetary Plan		-1.9	-1.1	-0.5
Difference		-0.1	0.6	0.7
General government net lending/borrowing projection at unchanged policies	B.9			
Stability Programme		-1.8	-1.7	-1.2
Draft Budgetary Plan		-1.9	-1.1	-0.5
Difference		-0.1	0.6	0.7

8. Distributional impact of the main expenditure and revenue measures

Table 8 shows the forecast median development in purchasing power in 2017 for various households. These figures show developments in purchasing power as a result of the average wage and price developments and as a result of income policy.

In 2017, the average purchasing power will increase for a fourth consecutive year. It is expected that more than 90% of households in the Netherlands will enjoy greater purchasing power in 2017. The expected median developments in purchasing power of all households is +1%. In 2016, mainly economically active households benefited due to the tax burden on labour being relieved by the € 5-billion-package. However, an equitable development in purchasing power is one of this government's spearheads. Aside from the tax-relief measures on labour, the government also chose to enact a one-off repair of the purchasing power of benefit recipients and retirees in 2016. In 2017, this purchasing power repair will be made permanent. The general tax credits, healthcare benefits, rent allowance and tax credit for the elderly will be increased structurally. Economically active households benefit from real wage increases. The median purchasing power change for both economically active households and benefit recipients will be +1.1% in 2017. Retirees will have a median improvement in purchasing power of +0.7% in 2017. Also in 2017, the poverty trap will shrink somewhat due to low-earning workers benefiting relatively more in their purchasing power than the recipients of minimum benefits.

Table 8 Forecast of median developments in purchasing power in 2017

Income level	**Median development in purchasing power in %** (WML = Minimum Wage and Minimum Holiday Allowance Act)
≦ 175% WML	1.1
175 - 350% WML	0.9
350 - 500% WML	1.1
> 500% WML	1.1
Source of income	
Economically active households	1.1
Benefit recipients	1.1
Retirees	0.7
Household type	
Double-income households	1.0
Single householders	1.1
Single-income households	0.6
Children	
Households with children	1.3
Households without children	1.0
All households	1.0

source: CPB

Annex - Methodological aspects including forecast effects and aggregated budgetary measures for economic growth underpinning the information contained in the DBP.

Table 9. Methodological aspects.

Estimation Technique	**Use in budgetary process**[1]	**Relevant features of the model / technique used**
SAFFIER II	Macro forecast for the Dutch economy in the short and medium term	Macro-econometric model
MIMOSI	Forecasts of purchasing power, employee costs, social security and personal income tax	Micro simulation model
MIMIC	Forecast of policy effects on structural labour supply	General equilibrium model
ISIS	Forecast trend structural labour supply	HP-filter
TAXUS	Short and medium term forecast of tax revenue (with the exception of personal income tax)	Detailed forecast tax revenue
ZOEM	Forecast of healthcare expenditure and employment in healthcare sector	Arithmetic model for employment in healthcare sector and for healthcare expenditure in the short and medium term
Government account	Forecast of government employment, public expenditure and revenue with the exception of taxes, healthcare and social security	Detailed arithmetic model for government employment and for total government finances in the short and medium term
EVIEWS in combination with EC software	Forecast output gaps	Econometric model

1/ Modelling tools may have been used:
- when drawing up macro forecasts
- when estimating expenditure and revenue under the no-policy change scenario
- when estimating the distributional impact of the main expenditure and revenue measures
- when quantifying the expenditure and revenue measures to be included in the draft budget
- when estimating how reforms included in the DBP address targets set by the Union's Strategy for growth and jobs and the country-specific recommendations (CSRs).