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COMMISSION OPINION

of 15.11.2013

on the Draft Budgetary Plan of THE NETHERLANDS

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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 2014 submitted on 30 September 2013 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 currently subject to the corrective arm of the SGP. In addition to the Draft Budgetary Plan, it has also submitted a report on effective action and an Economic Partnership Programme as recommended by the Council in June 2013. The Council opened the Excessive Deficit Procedure for the Netherlands on 2 December 2009 and recommended to correct the excessive deficit by 2013. On 21 June 2013, the Council concluded that the Netherlands had taken effective action but adverse economic events with major implications on public finances had occurred, and issued revised recommendations. The Netherlands was given a deadline of 1 October 2013 to take effective action to ensure a sustainable correction of the excessive deficit by 2014. The Netherlands was recommended to reach a headline deficit of 3.6% of GDP in 2013 and 2.8% of GDP in 2014, consistent with an improvement in the structural balance of around 0.6% and 0.7% of GDP in 2013 and 2014 respectively, based on the Commission services updated 2013 Spring Forecast.
5. Compared to the Commission 2013 Autumn Forecast, economic growth in the Draft Budgetary Plan is slightly lower for 2013 and slightly higher for 2014. The projected developments of the components of GDP are quite similar as well, with a few exceptions. Government consumption is somewhat different as the composition of the additional consolidation package has changed in the wake of the October 2013 budget agreement. These changes were incorporated in the Commission forecast but not in the macroeconomic scenario underlying the Draft Budgetary Plan. The expected increase in economic growth in 2014 according to the Draft Budgetary Plan relies more heavily on investments and less on net exports than in the Commission forecast. The macroeconomic scenario used for the Draft Budgetary Plan and the Commission 2013 Autumn Forecast share similar risks, which are mainly on the downside.

6. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the CPB Netherlands Bureau for Economic Policy Analysis (CPB). Budget projections are based on this forecast.
7. Compared to the latest Stability Programme, the Draft Budgetary Plan foresees a higher general government deficit for 2014 due to weaker-than-expected economic activity. The headline deficit is expected to be higher even though the size of the ex ante additional consolidation package for 2014 was enlarged in the course of 2013, from 0.7% of GDP at the time of submission of the 2013 Stability Programme to 1% of GDP as embedded in the Draft Budgetary Plan. On the revenue side, tax revenues in particular are foreseen to be lower than in the Stability Programme. On the expenditure side, the higher unemployment rate in 2014 in particular is expected to lead to higher government expenditure compared to earlier projections. The headline deficit forecasts for 2013 are very similar according to the Draft Budgetary Plan and the Commission 2013 Autumn forecast. By contrast, the 2013 Stability Programme expected a slightly higher headline deficit for 2013. Since the spring, the Dutch economy has developed worse than expected, resulting in revenue shortfalls whereas expenditure ceilings were maintained. However, on the basis of quarterly data published by Statistics Netherlands (CBS), the forecast 2013 general government deficit is lower than in the spring, because it does not include a sizeable deficit impact for the nationalisation of SNS Reaal. However the CBS and Eurostat are currently discussing the statistical recording of this transaction. For 2014, both the Commission forecast and the Draft Budgetary Plan expect the headline deficit to be higher than foreseen in the Stability Programme, mainly due to economic activity being weaker than previously expected.
8. However, should downside risks to the economic outlook materialise lower-than-expected revenues may result. Specific implementation risks exist for some of the consolidation measures for 2014. In particular, revenues can deviate from projections if some of the newly agreed measures yield different amounts than what is expected. Expenditure on the other hand is limited by domestic expenditure ceilings and the Netherlands has a strong track record in maintaining them.
9. Mainly due to persistently high deficits, the gross government debt ratio has increased to over 71% of GDP in 2012 and is expected to increase further in the coming years. The Draft Budgetary Plan projects the gross debt ratio to increase to over 76% of GDP in 2014. Compared to the macroeconomic scenario underpinning the Draft Budgetary Plan, the Commission 2013 Autumn Forecast is slightly less optimistic for real growth in 2014, resulting in a slightly higher debt ratio. Risks to the debt trajectory mainly stem from headline deficits being higher and/or nominal growth being lower than projected. Risks stemming from outstanding government guarantees, although substantial in size, appear limited.
10. As a reaction to an economy that is undergoing a more severe downturn than previously estimated, the government decided on an additional consolidation package for 2014 compared to what had already been included in the Stability Programme and incorporated this as part of the 2014 draft budget. The main measures consist of expenditure cuts to health care, social security, and public administration. Revenues are expected to be boosted by tax increases. Some targeted expenditure increases and net revenue reductions aim at cushioning the impact of fiscal consolidation on economic activity and growth potential and partly pertain to 2013. The measures are sufficiently detailed and quantified and the government appears to have secured sufficient parliamentary support to get them adopted.

However, the expected budgetary impact of some of the larger measures is uncertain, in particular as regards expenditure savings for local government and expenditure restraint in health care.

11. For 2013, the headline deficit is expected to be below the target of 3.6% of GDP specified in the Council's EDP recommendation. For 2013, the EDP requirements have been fulfilled with respect to both the headline and structural deficit targets and effective action in compliance with the Council recommendation of 21 June 2013 has been delivered. For 2014, the headline deficit is forecast to remain above the recommended nominal target of 2.8% of GDP. On the basis of the 2013 Autumn Forecast, the change in the structural balance corrected for changes in potential growth and unexpected revenue shortfalls is 0.5% of GDP, below the recommended effort of around 0.7% of GDP in the EDP recommendation. A bottom-up assessment, which estimates the size of the fiscal effort for 2014 on the basis of the additional revenue measures and the expenditure developments under the control of the government between the EDP scenario and the Commission 2013 Autumn Forecast, shows that the Netherlands has taken additional measures for 2014 of around 1% of GDP, which is in line with the amount of measures deemed necessary to reach the structural targets spelled out in the EDP recommendation.
12. The additional consolidation package appears to safeguard expenditure on education, which is in line with the country specific recommendation on public finances and enhances the long-term growth prospects of the Netherlands.
13. In accordance with Council recommendation of 21 June, the Netherlands has also submitted an Economic Partnership Programme. The Commission has examined the programme and concluded that it includes a broadly adequate set of fiscal-structural reforms, which would be supportive of an effective and lasting correction of the excessive deficit. On this basis, the Commission has made a proposal for a Council Opinion on the Economic Partnership Programme.
14. Overall, the Commission, based on its forecast, is of the opinion that the Draft Budgetary Plan of the Netherlands sent on 30 September 2013 with subsequent addenda is compliant with the rules of the SGP, albeit with no margin. In particular, the Commission forecast points to compliance with respect to the EDP recommendation for 2014, even though the excessive deficit situation is not expected to end by 2014. The risks identified warrant close monitoring of fiscal developments in the Netherlands in the near future. The Commission is also of the opinion that the Netherlands has made some progress to address the structural part of the fiscal recommendations issued by the Council in the context of the European Semester. The Commission invites the authorities to rigorously implement the budget and to make further progress towards implementation of the fiscal recommendations under the European Semester.

Done at Brussels, 15.11.2013

*For the Commission
Olli REHN
Vice-President*