The Dutch medium-term budgetary framework and the role of CPB

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Program manager public finance
CPB

12th meeting of the Network of Public Finance Economists
Content

• Dutch MTBF in a nutshell
• Decisive Coalition Agreements
• Implementing the Agreement
• Preparing the Agreement
• The role of Ministry of Finance
• Problems and challenges
Dutch MTBF in a nutshell

1. Expenditure ceilings, 4 years (period up to next elections).
2. Discretionary tax measures, maximum set for 4 years (period up to next elections).
3. Sustainability analysis as long-term anchor.
4. 1+2: automatic stabilisers can play their stabilising role on the revenue side.
5. Constraint: European budgetary rules (especially the 3%-deficit-ceiling)

6. Independent forecaster: CPB.
7. 10 pages of budgetary rules (link) on this trend-based budgeting (for instance on indexing real expenditure ceilings)
Coalition Agreements are key in the Netherlands

- One key decision moment on budgetary policy every 4 years after the general election.
- Lengthy negotiations
- Detailed agreements
- Trend-based budgetary policy since 1994.
- In case the government or a coalition party wants a change in the Agreement it needs to provide an alternative with the same budgetary impact.
Implementing the Coalition Agreement within the fiscal framework

- Annual budgets should be in line with the Coalition Agreement
- Expenditure overruns vis-à-vis the expenditure ceilings should be offset by reductions in other expenditures of the ministry
- Tax revenue windfalls cannot be used to offset expenditure overruns.
- Automatic stabilisers can play their full role on the tax side.
CPB’s role in implementing the Agreement

March
- CPB March Outlook
  - Input Cabinet decisions on government outlays t+1
  - Input Growth and Stability Program

June
- CPB June Outlook (taking into account Cabinet decisions on government outlays t+1)
  - Input Cabinet decision on taxes t+1

September
- Budget Day: publication draft budget t+1
- CPB September Outlook (consistent with draft budget)
  - Input Draft Budgetary Plan

- Providing the official economic projection used in the budgetary process
- Providing information on expenditure overruns and discretionary tax measure overruns. (Also done by Ministry of Finance)
- No explicit assessment of budgetary policy. No surveillance by CPB. (But numbers matter)
- New: providing the Council of State information needed for its budgetary surveillance (of the European rules)
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Preparing the Agreement

Publications in series Promising Policies (CPB, SCP, PBL)

CPB: Medium-term baseline Including sustainability analysis

SBR- Advisory Group on Fiscal Policy
Committee of high-level civil servants (including director CPB and DNB): advice on deficit target and budgetary rules
Preparing the Agreement

CPB analyses of the election manifestos
The coalition negotiations

• CPB will analyse the Coalition Agreement (close to the final decision by the negotiating political parties). The analysis provides information on impact on key variables (economic growth, unemployment, government deficit and sustainability). The analysis is published by CPB after final decisions on the Agreement.

• CPB plays comparable role in case of an additional package.
• CPB adjusts its medium-term baseline on the basis of the Coalition Agreement.

• Coalition Agreement and CPB’s adjusted medium-term baseline are integrated in new multi-annual budget by Ministry of Finance (Startnota including outlay ceilings).
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Ministry of Finance and the MTBF

Ministry of Finance is key in medium-term budgetary framework

• Adding a year to multiannual budget numbers
• Providing crucial detailed information on budget central government
Adding a year to multiannual budget numbers

Budgetary rule 32.2:
A year is added to the multiannual budget numbers solely based on demographic developments

Told in The Hague:
Heads of budgetary units (FEZ) earn their salary by succeeding in adding a year with some budgetary space.

Role Finance: to prevent this
Connecting new multiannual budget & previous one

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Problems of the recent past disappeared
But other challenges remain

- Will a detailed Coalition Agreement for four years be feasible in case of a minority government (without stable partners in opposition)?
But other challenges remain

To reconcile a national trend-based budgetary policy with a medium-term focus with European fiscal policy rules with an annual focus.
Challenge: national versus European budget rules
Thanks for your attention