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Assessment of the 2018 Stability Programme for

The Netherlands

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

On 26 April 2018, the Netherlands submitted its April 2018 Stability Programme (hereafter called Stability Programme), covering the period 2017-2021. It was sent to parliament on 13 April. The fiscal council (Advisory Division, Council of State) provided an opinion on it, which was published on its website on April 13 as well.[1]

The Netherlands is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should preserve a sound fiscal position, which ensures compliance with the medium-term objective (MTO). As of 2017, the Netherlands is also required to comply with the debt reduction benchmark, as the three-year period of debt transitional arrangements following the abrogation of the EDP in 2013 ended in 2016.

This document complements the Country Report published on 7 March 2018 and updates it with the information included in the Stability Programme.

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2018 spring forecast. Section 3 presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium-term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The projections used in the Stability Programme are based on the forecast of the Netherlands Bureau of Economic Policy Analysis (Centraal Planbureau, CPB) and cover the period 2017-2021[2]. Economic growth reached 3.2% in 2017 and is expected to continue at the same pace in 2018, before slowing down to 2.7% in 2019. This is broadly in line with the Commission 2018 spring forecast, which forecasts economic growth at 3.0% in 2018 and 2.6% in 2019.

According to the Stability Programme, growth is expected to be mainly driven by domestic demand, with private consumption increasing by 2.1% in 2018 and by 2.5% in 2019. Private consumption is supported by strong employment and real wage growth. After a sharp recovery in the past years, investment growth is projected to return to somewhat more sustainable rates of 5.8% in 2017 and 4.1% in 2019. Further support for growth comes from the external side, with a projected growth contribution of 0.4% in 2018 and 0.1% in 2019 from net exports.

Compared to the Draft Budgetary Plan[3] (DBP) for 2018, the Stability Programme projects 0.1 percentage points higher GDP growth in 2018, which is explained by a marginally improved outlook for net exports.

[1] See https://www.raadvanstate.nl/assets/begrotingstoezicht/voorjaarsrapportage-2018.pdf

[2] Some projected figures for 2017, including GDP growth and public finances, have been updated with outturn data, as notified by Statistics Netherlands.

[3] The Netherlands submitted its Draft Budgetary Plan for 2018 on 12 October 2017 in compliance with Regulation (EU) No 473/2013 of the Two-Pack. On 26 October 2017, the new government was installed. On 3

Table 1: Comparison of macroeconomic developments and forecasts

	2017		2018		2019		2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	3.2	3.2	3.0	3.2	2.6	2.7	1.5	1.5
Private consumption (% change)	1.9	1.9	2.0	2.1	2.2	2.5	1.7	1.7
Gross fixed capital formation (% change)	5.6	5.6	5.2	5.8	4.4	4.1	1.4	1.4
Exports of goods and services (% change)	6.1	6.1	5.5	4.9	4.4	4.6	3.7	3.8
Imports of goods and services (% change)	5.4	5.4	6.0	5.1	5.0	5.2	4.2	4.2
Contributions to real GDP growth:								
- Final domestic demand	2.3		2.7	2.7	2.5	2.4	1.4	1.4
- Change in inventories	-0.2		0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	1.1		0.3	0.4	0.1	0.1	0.1	0.1
Output gap[1]	0.2	0.1	1.1	1.1	1.8	1.7	1.1	0.7
Employment (% change)	2.2	2.1	2.0	1.9	1.3	1.3	0.3	0.1
Unemployment rate (%)	4.9	4.9	3.8	3.9	3.5	3.5	3.7	3.8
Labour productivity (% change)	1.2	0.9	0.7	1.3	1.0	1.4	1.3	1.4
HICP inflation (%)	1.3	1.3	1.6	1.6	2.2	2.3	1.7	1.6
GDP deflator (% change)	1.1	1.3	1.7	1.8	2.1	2.4	2.0	1.8
Comp. of employees (per head, % change)	1.5	1.8	2.7	2.9	3.3	3.9	3.8	3.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	10.0	9.5	9.5	9.4	9.1	9.2	8.7	8.6

Note:

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

Source :

Commission 2018 spring forecast (COM); Stability Programme (SP).

The macroeconomic scenario underlying the Stability Programme is broadly similar to the Commission forecast, as can be seen in Table 1. The Commission forecasts slightly higher export and import growth in 2018, leading to a marginally lower contribution from net exports and slightly lower GDP growth overall. Both the Commission and the Stability Programme forecast a decline of employment growth combined with an acceleration of wage growth in 2019.[4]

The output gap, as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology, is projected to increase from 0.2% of GDP in 2017 to 1.1% in 2018 and 1.7% in 2019, which is broadly in line with the Commission forecast for the output gap. Overall, the Stability Programme uses plausible macroeconomic assumptions.

November, the government sent an addendum to the DBP, which endorses all measures of the DBP and reflects and formalises the measures of the coalition agreement of 10 October 2017.

[4] For the Commission spring forecast, the numbers in the table refer to nominal compensation per employee measured in full time equivalents (see statistical annex, p. 191), whereas wage growth in the Stability Programme reflects total nominal compensation per employed person (wage and salary earners and self-employed).

3. Recent and planned budgetary developments

3.1. Budget developments in 2017 and 2018

The general government balance reached a surplus of 1.1% of GDP in 2017, which is significantly more positive than projected in the DBP 2018 (+0.6% of GDP) and in the Stability Programme 2017 (+0.4% of GDP).

The difference in net lending of 0.5% of GDP compared to the DBP can be attributed to both higher revenues and lower expenditures. On the revenue side, in particular a revenue increasing one-off measure related to the phasing out of a tax allowance for pension savings by director major-shareholders (*'pensioen in eigen beheer'*) led to a larger-than-expected increase in income tax revenues (0.2% of GDP). On the expenditure side, lower-than-expected compensations of employees (0.1% of GDP) as well as reduced capital transfers and residual items (totalling 0.2% of GDP) contributed to the upward revision.

While some of these drivers have a temporary effect, there has been a positive underlying trend in the budgetary position linked to the economic expansion and the strong labour market performance, which carries into 2018 and 2019. For the current year, the Stability Programme expects a government surplus of 0.7% of GDP, compared to a projected surplus of 0.5% of GDP from the DBP. The difference can be fully attributed to tax-rich growth and lower social payments, linked to the better-than-expected labour market developments; no notable measures have been announced since the updated DBP.

3.2. Medium-term strategy and targets

The 2018 Stability Programme presents the national medium-term budgetary plan covering the period up to 2021. In the Netherlands, government expenditure is set in terms of multi-annual expenditure ceilings at the beginning of the government term. With the installation of the new government by the end of October 2017, a new coalition agreement including a detailed policy programme is published. This coalition agreement, which covers the period 2018-2021, has been endorsed by parliament and is now being implemented. The budgetary projections over the programme period include the measures of the government agreement and are based on a no-policy-change assumption.

According to the Stability Programme, the general government surplus is set to decrease from 1.1% of GDP in 2017 to 0.3% of GDP in 2021, as is illustrated in Table 2. This is mainly driven by lower government revenues, while government expenditure as a percentage of GDP are projected to remain broadly stable. The government has reiterated its commitment to its MTO, a structural balance of -0.5% of GDP[5]. Taken at face value, the Stability Programme projects the structural balance to decrease from 0.7% of GDP in 2017 to -0.1% of GDP in 2021, staying above the MTO. Similarly, the recalculated structural balance implies a continued positive margin to the MTO throughout the programme period.

Compared to the DBP, the Stability Programme projects a roughly stable headline budget surplus over the programme period and a somewhat lower surplus in structural terms, which is

[5] Whilst strictly speaking the structural balance is measured in percentage of *potential* GDP (not of actual GDP), the reference to the potential is left out throughout this document for reason of simplicity.

related to a higher output gap estimate. The current projection is broadly in line with the Commission spring forecast for the period 2018-2019.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2017	2018		2019		2020	2021	Change: 2017-2021
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**43.7**	**43.4**	**43.5**	**43.4**	**43.6**	**43.3**	**43.0**	**-0.6**
of which:								
- Taxes on production and imports	11.5	11.4	11.5	11.7	12.0	12.1	12.2	0.7
- Current taxes on income, wealth, etc.	12.8	12.5	12.4	12.3	12.4	12.1	12.0	-0.8
- Social contributions	14.4	14.7	14.8	14.7	14.5	14.5	14.3	-0.1
- Other (residual)	4.9	4.8	4.8	4.6	4.7	4.6	4.5	-0.4
Expenditure	**42.6**	**42.6**	**42.8**	**42.4**	**42.7**	**42.8**	**42.7**	**0.1**
of which:								
- Primary expenditure	41.6	41.8	42.0	41.7	42.0	42.1	42.1	0.5
of which:								
Compensation of employees	8.5	8.6	8.6	8.6	8.5	8.5	8.4	-0.2
Intermediate consumption	5.7	5.8	5.7	5.7	5.6	5.6	5.6	-0.1
Social payments	21.0	20.7	20.5	20.6	20.5	20.8	21.1	0.1
Subsidies	1.2	1.2	1.2	1.3	1.2	1.2	1.2	0.0
Gross fixed capital formation	3.5	3.6	3.6	3.6	3.5	3.5	3.4	0.0
Other (residual)	1.7	1.9	2.3	2.0	2.6	2.6	2.5	0.8
- Interest expenditure	1.0	0.8	0.8	0.7	0.7	0.7	0.6	-0.4
General government balance (GGB)	**1.1**	**0.7**	**0.7**	**0.9**	**0.9**	**0.5**	**0.3**	**-0.8**
Primary balance	**2.1**	**1.6**	**1.5**	**1.7**	**1.6**	**1.1**	**0.9**	**-1.1**
One-off and other temporary	0.5	0.1	0.1	0.1	0.1	0.0	0.0	-0.5
GGB excl. one-offs	**0.6**	**0.6**	**0.6**	**0.9**	**0.8**	**0.5**	**0.3**	**-0.3**
Output gap[1]	0.2	1.1	1.1	1.8	1.7	1.1	0.7	0.6
Cyclically-adjusted balance[1]	1.0	0.0	0.0	-0.2	-0.2	-0.2	-0.1	-1.2
Structural balance[2]	**0.5**	**-0.1**	**-0.1**	**-0.3**	**-0.3**	**-0.2**	**-0.1**	**-0.7**
Structural primary balance[2]	1.5	0.7	0.7	0.5	0.4	0.5	0.5	-1.1

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.

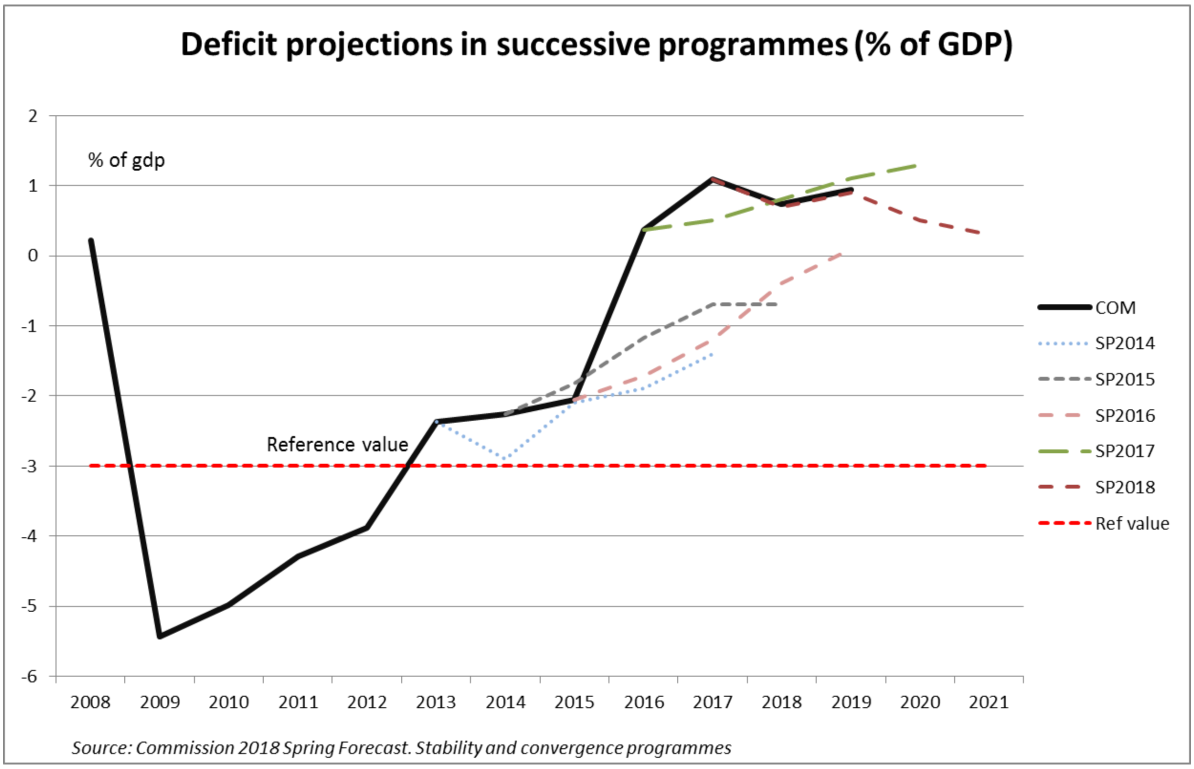
[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability Programme (SP); Commission 2018 spring forecasts (COM); Commission calculations.

As is visible in Figure 1, the budgetary outcome for 2017 is substantially more positive than anticipated in preceding Stability Programmes, which can be attributed to the impact of the one-off measure in the field of pensions mentioned above. For 2018 and 2019, the current update is substantially less positive compared to the preceding Stability Programme. This is related to the budgetary stimulus of the new 2018-2021 government agreement.

Figure 1: Government balance projections in successive programmes (% of GDP)



3.3. MEASURES UNDERPINNING THE PROGRAMME

The measures underpinning the programme are described in the Commission's analysis of the draft budgetary plan of the Netherlands 2018[6]. In 2018, the government expenditure on defence, education (including primary school teachers), child-related transfers and infrastructure is increasing. For 2019, a lowering of personal income taxes is foreseen, which is partly financed by an increase of the lower tariff in the Value Added Tax from 6% to 9%. No notable new measures have been announced beyond what was included in the DBP.

[6] SWD(2017) 524 final

3.4. DEBT DEVELOPMENTS

Government debt was 56.7% of GDP at the end of 2017, below the 60% of GDP Treaty reference value. The Stability Programme projects a decline to 52.1% of GDP in 2018, and a further decline to 44.0% of GDP in 2021, driven by both relatively large primary surpluses and strong denominator effects. The debt development is broadly consistent with the Commission forecast. Both expect the debt-to-GDP ratio to fall to around 50% of GDP in 2019[7].

Table 3: Debt developments

(% of GDP)	Average 2012-2016	2017	2018		2019		2020	2021
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**65.7**	**56.7**	**53.5**	**52.1**	**50.1**	**48.4**	**46.0**	**44.0**
Change in the ratio	0.0	-5.0	-3.3	-4.6	-3.4	-3.7	-2.4	-2.0
Contributions[2] :								
1. Primary balance	**0.7**	**-2.1**	**-1.6**	**-1.5**	**-1.7**	**-1.6**	**-1.1**	**-0.9**
2. "Snow-ball" effect	**0.2**	**-1.6**	**-1.7**	**-1.9**	**-1.7**	**-1.8**	**-1.0**	**-0.9**
Of which:								
Interest expenditure	1.4	1.0	0.8	0.8	0.7	0.7	0.6	0.6
Growth effect	-0.6	-1.9	-1.6	-1.7	-1.3	-1.3	-0.7	-0.7
Inflation effect	-0.6	-0.7	-0.9	-1.0	-1.1	-1.2	-0.9	-0.8
3. Stock-flow adjustment	**-0.8**	**-1.4**	**0.0**	**-1.2**	**0.0**	**-0.3**	**-0.3**	**-0.2**
Of which:								
Cash/accruals diff.				0.1		0.3	0.2	0.2
Acc. financial assets				0.0		0.0	0.0	0.0
Privatisation				0.0		0.0		
Val. effect & residual				0.0		0.0	0.0	0.0

Notes:

[1] End of period.

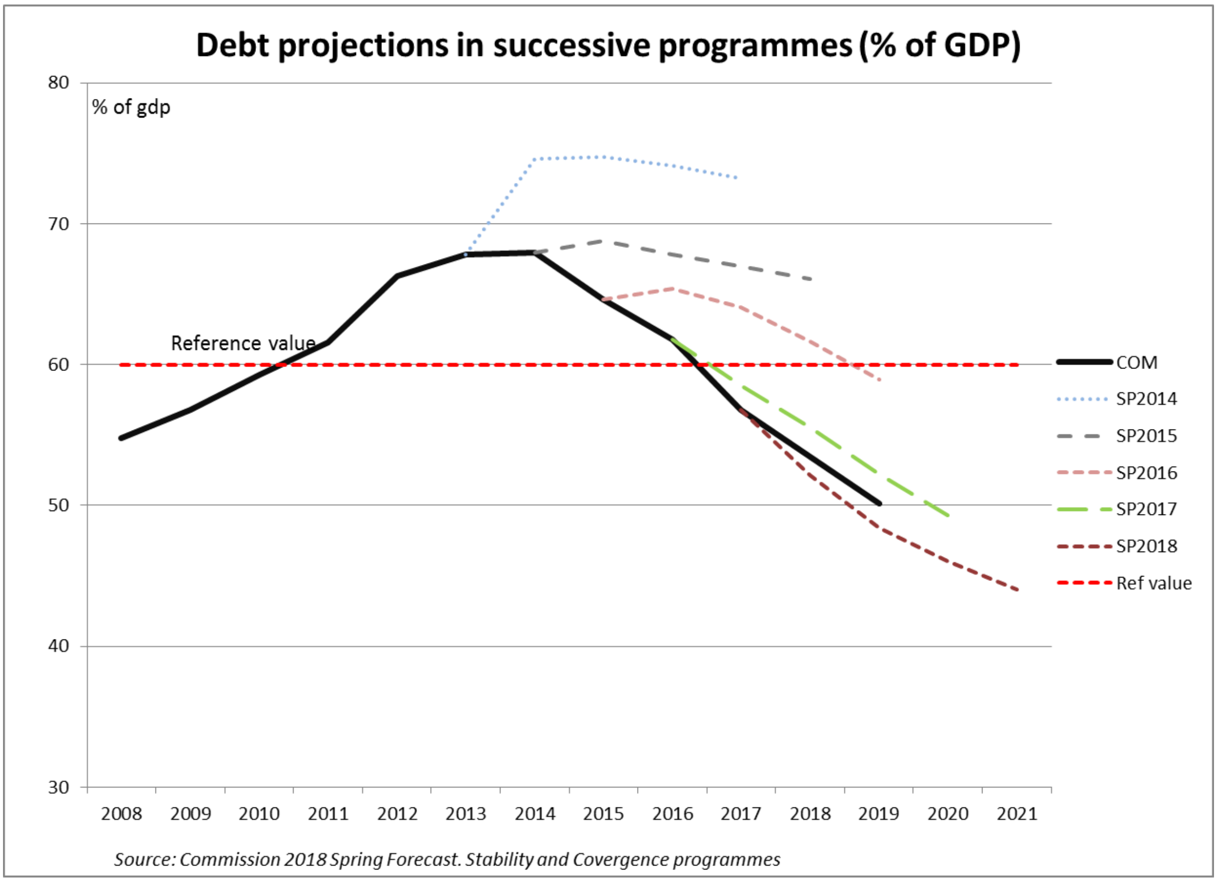
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets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

Source :

Commission 2018 spring forecast (COM); Stability Programme (SP), Commission calculations.

[7] The Stability Programme is based on CPB projections, which include assumptions on the planned re-privatisation of (partially) state-owned financial institutions with a debt-reducing effect (via stock-flow adjustments), leading to a somewhat lower debt trajectory.

Figure 2: Government debt projections in successive programmes (% of GDP)



3.5. Risk assessment

Risks to the current projection stem mostly from the macroeconomic side. If the current economic upswing comes to an early end, this will have a pronounced effect on the fiscal balance, given the relatively high budget semi-elasticity. In terms of policy uncertainty, revenue risks are related to natural gas. In early April, the government decided to end the production from the Groningen field by 2030. The short-term impact of this intention depends on a revision of annual production ceilings, which is subject to further decision-making. There are some implementation risks in the larger reforms envisaged by the current government in the field of pensions and labour market. However, the direct budgetary impact of these structural reforms is relatively limited, reducing the risks to the fiscal forecast.

4. Compliance with the provisions of the Stability and Growth Pact

The Netherlands is subject to the preventive arm of the Stability and Growth Pact. In 2017 the Netherlands was also subject to the debt reduction benchmark.

4.1. Compliance with the debt criterion

Following the correction of its excessive deficit in 2013, the Netherlands was required to comply with the transitional debt rule (as defined by the minimum linear structural adjustment, MLSA) until 2016. Since 2017 the Netherlands has had to comply with the debt reduction benchmark. Based on outturn data, the debt-to-GDP ratio has fallen below the 60%

reference value in 2017. According to the Stability Programme, debt is forecast to continue to decline further in 2018 and 2019. This projection is confirmed by the Commission forecast, implying compliance with the provisions of the Stability and Growth Pact with regard to the debt criterion.

Table 4: Compliance with the debt criterion

	2017	**2018**		**2019**	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**57**	**52.1**	**53.5**	**48.4**	**50.1**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	-0.3	-0.7	-0.6	-0.2	-0.2
To be compared to:					
Required adjustment [4]					

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 (S/CP) budgetary projections for the previous years are achieved.

Source:
Commission 2018 spring forecast (COM); Stability Programme (SP), Commission calculations.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

With a structural balance of 0.5% of GDP in 2017, the Netherlands was above its MTO of -0.5% of GDP. Based on the Commission 2018 spring forecast, the Netherlands is projected to remain above the MTO in 2018 and 2019. Similarly, an assessment of the recalculated Stability Programme implies an overachievement of the MTO over the programme horizon and, thus, compliance with the provisions of the preventive arm.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2017	2018		2019	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	0.5	-0.1		-0.3	
Structural balance based on freezing (COM)	0.3	-0.1		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2017**	**2018**		**2019**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	Compliance				
Required adjustment corrected[5]					
Change in structural balance[6]					
One-year deviation from the required adjustment [7]					
Two-year average deviation from the required adjustment [7]					
Expenditure benchmark pillar					
Applicable reference rate[8]					
One-year deviation adjusted for one-offs[9]					
Two-year deviation adjusted for one-offs[9]					
PER MEMORIAM: One-year deviation [10]					
PER MEMORIAM: Two-year average deviation [10]					

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 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2017) is carried out on the basis of Commission 2018 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] 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 corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs 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.

[10] 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 :

Stability Programme (SP); Commission 2018 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

The Netherlands does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures the short-term risks of fiscal stress stemming from the fiscal, as well as the macrofinancial and competitiveness sides of the economy. [8]

Based on Commission forecasts and a no-fiscal-policy-change scenario beyond the forecast horizon, government debt, at 56.7% of GDP in 2017, is expected to decrease to 41.0% of GDP in 2028, thus remaining below the 60% of GDP Treaty threshold. This implies low risks for the country in the medium term. A further reprivatisation of financial institutions would lead to a slightly faster decline in government debt. Sensitivity analysis shows similar risks.[9] Overall, this highlights low risk for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would keep debt on a clearly decreasing path, remaining below the 60% of the GDP reference value in 2028.

The medium-term fiscal sustainability risk indicator S1[10] is at -1.5% of GDP, primarily related to the initial budgetary position (with a 1% of GDP contribution), thus indicating low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -2.2% of GDP, also implying a low medium-term risk. Overall, both the no-policy-change scenario and the full implementation of the fiscal plans imply low risks to fiscal sustainability over the medium term.

The long-term fiscal sustainability risk indicator S2, which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 3.0% of GDP. In the long term, the Netherlands therefore appears to face medium fiscal sustainability risks. This is primarily related to the projected increase in the costs of ageing where in particular the projected increase in long-term care costs contribute 2.0% of GDP to the indicator. Full implementation of the programme would put the S2 indicator at 3.1% of GDP, leading to a similar long-term risk.[11]

[8] See the note to Table 6 for a definition of the indicator.

[9] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Debt Sustainability Monitor 2017 for more details).

[10] See the note to Table 6 for a definition of the indicator.

[11] The projected costs of ageing used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the updated projections, endorsed by the EPC on 30 January 2018, and to be published in the forthcoming Ageing Report 2018.

Table 6: Sustainability indicators

Time horizon	Commission Scenario		Stability / Convergence Programme Scenario	
Short Term	**LOW risk**			
S0 indicator [1]	0.1			
Fiscal subindex	0.0	LOW risk		
Financial & competitiveness subindex	0.2	LOW risk		
Medium Term	**LOW risk**			
DSA [2]	LOW risk			
S1 indicator [3]	-1.5	LOW risk	-2.2	LOW risk
of which				
Initial Budgetary Position	-1.0		-1.0	
Debt Requirement	-0.7		-1.4	
Cost of Ageing	0.2		0.2	
of which				
Pensions	-0.2		-0.1	
Health-care	0.2		0.2	
Long-term care	0.5		0.4	
Other	-0.3		-0.2	
Long Term	**MEDIUM risk**		**MEDIUM risk**	
S2 indicator [4]	3.0		3.1	
of which				
Initial Budgetary Position	0.4		0.3	
Cost of Ageing	2.7		2.8	
of which				
Pensions	0.4		0.6	
Health-care	0.6		0.5	
Long-term care	2.0		1.9	
Other	-0.3		-0.2	

Source: Commission services; 2018 stability/convergence programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2018 forecast covering until 2019 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2032. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2020 for Commission scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2017.

6. FISCAL FRAMEWORK

Since 1994 the Netherlands has a trend-based fiscal policy framework. Expenditure ceilings are set for a whole government term, based on an independent economic medium-term forecast. Expenditure ceilings are to be respected on an annual basis, with automatic stabilisation via the revenue side of the budget. The new government has excluded cyclical unemployment expenditures from the expenditure ceilings.

Numerical fiscal rules have been embedded in the Law on the Sustainability of Public Finances (*Wet houdbare overheidsfinanciën – Wet HOF)*, with a reference to the MTO set in structural terms, and with a reference to the deficit and debt reference values as well as procedures of the SGP.

The Advisory Division of the Council of State is the designated body responsible for the independent monitoring of compliance of budget planning and execution with the numerical fiscal rules ('fiscal council'). In its spring assessment[12], the Advisory Division states that the executed budget of 2017 complied with the numerical fiscal rules, as the structural balance met the MTO with a positive margin, and the debt-to-GDP ratio fell below the 60% of GDP reference value. In terms of a forward-looking assessment, the Council of State indicates that the structural balance is expected to remain above the MTO in 2018 and 2019, and that gross government debt will continue to fall, implying compliance with the fiscal rules.

With regard to the multi-annual budget plan of the new government, the Council of State notes that while the government finances are likely to comply with the European fiscal rules, the margins are tight. The Council of State particularly remarks that public finances are deteriorating in economic good times, 'which one would not expect' and points to the specific risk of lower revenues from natural gas, and a more general risk of pro-cyclical fiscal policy. Therefore, the Council stressed the need for a broader assessment of fiscal risks over the medium term.

The Stability Programme serves as the national medium-term fiscal plan according to Art. 4(1) of the Two-Pack Regulation 473/2013. As such, it is required to include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. However, neither the Stability Programme nor the national reform programme contains such indications.

The macroeconomic forecast underlying the Stability Programme was prepared by the CPB. While the CPB is a government body, it enjoys complete operational freedom, formally guaranteed by law[13]. 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 Wet HOF.

[12] See https://www.raadvanstate.nl/assets/begrotingstoezicht/voorjaarsrapportage-2018.pdf

[13] 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.

7. SUMMARY

In 2017, the Netherlands recorded headline and structural budget surpluses, and remained above its MTO, while the debt-to-GDP ratio fell below the 60% reference ratio, in full compliance with the provisions of the Stability and Growth Pact.

According to the Stability Programme, the Netherlands plans to remain above the MTO in 2018 and 2019, and the debt-to-GDP ratio is projected to decline further. This is in line with the Commission 2018 spring forecast.

8. ANNEX

Table I. Macroeconomic indicators

	2000-2004	2005-2009	2010-2014	2015	2016	2017	2018	2019
Core indicators								
GDP growth rate	1.8	1.5	0.6	2.3	2.2	3.2	3.0	2.6
Output gap [1]	-0.3	0.0	-2.5	-1.8	-1.1	0.2	1.1	1.8
HICP (annual % change)	3.0	1.6	1.8	0.2	0.1	1.3	1.6	2.2
Domestic demand (annual % change) [2]	1.3	1.7	-0.4	3.3	1.8	2.3	3.1	2.8
Unemployment rate (% of labour force) [3]	4.2	4.6	6.1	6.9	6.0	4.9	3.8	3.5
Gross fixed capital formation (% of GDP)	21.6	21.5	19.0	19.4	19.9	20.3	20.8	21.1
Gross national saving (% of GDP)	27.5	28.4	28.5	28.3	28.8	30.3	30.4	30.5
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.1**	**-1.0**	**-3.6**	**-2.1**	**0.4**	**1.1**	**0.7**	**0.9**
Gross debt	**49.7**	**49.6**	**64.6**	**64.6**	**61.8**	**56.7**	**53.5**	**50.1**
Net financial assets	**-30.3**	**-26.4**	**-38.6**	**-42.4**	**-40.6**	**-36.1**	**n.a**	**n.a**
Total revenue	42.4	42.9	43.4	42.8	43.8	43.7	43.4	43.4
Total expenditure	43.4	43.9	46.9	44.9	43.4	42.6	42.6	42.4
of which: Interest	2.7	2.0	1.6	1.2	1.1	1.0	0.8	0.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**6.9**	**9.1**	**10.0**	**3.7**	**7.2**	**8.5**	**8.5**	**8.2**
Net financial assets; non-financial corporations	**-179.4**	**-130.6**	**-86.9**	**-76.4**	**-72.3**	**-67.6**	**n.a**	**n.a**
Net financial assets; financial corporations	**7.0**	**12.1**	**-3.7**	**-4.5**	**-10.5**	**-6.1**	**n.a**	**n.a**
Gross capital formation	10.8	10.2	10.8	11.3	10.8	10.7	10.9	11.1
Gross operating surplus	25.6	27.8	28.5	28.9	28.2	27.9	28.0	27.9
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.1**	**-1.7**	**2.4**	**1.7**	**0.9**	**0.4**	**0.2**	**0.0**
Net financial assets	**142.0**	**124.4**	**162.6**	**199.4**	**212.7**	**201.0**	**n.a**	**n.a**
Gross wages and salaries	39.6	37.6	38.3	37.3	37.5	37.2	37.4	37.4
Net property income	5.6	4.8	6.1	6.4	6.3	5.9	5.7	5.6
Current transfers received	21.9	20.2	21.9	21.6	21.4	20.8	20.2	19.7
Gross saving	7.0	5.9	7.1	6.7	6.6	6.4	6.3	6.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**5.8**	**6.4**	**8.8**	**3.3**	**8.5**	**10.0**	**9.5**	**9.1**
Net financial assets	**62.4**	**22.5**	**-30.1**	**-73.2**	**-86.3**	**-88.4**	**n.a**	**n.a**
Net exports of goods and services	6.9	8.4	9.6	10.6	11.0	11.7	11.4	11.1
Net primary income from the rest of the world	0.5	0.0	1.2	-0.6	-1.2	-0.6	-0.6	-0.6
Net capital transactions	0.0	-0.4	-0.4	-5.0	-0.2	-0.1	-0.3	-0.4
Tradable sector	41.5	40.1	39.0	38.9	38.7	38.7	n.a	n.a
Non tradable sector	47.8	49.2	51.1	51.1	51.1	51.1	n.a	n.a
of which: Building and construction sector	4.9	5.1	4.4	4.1	4.3	4.3	n.a	n.a
Real effective exchange rate (index, 2000=100)	94.9	99.3	100.5	95.9	96.1	96.4	98.4	99.2
Terms of trade goods and services (index, 2000=100)	99.6	100.6	98.7	99.6	100.2	99.8	99.7	99.8
Market performance of exports (index, 2000=100)	100.1	98.3	101.6	104.2	103.9	105.4	105.8	105.9

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :
AMECO data, Commission 2018 spring forecast