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Analysis of the Draft Budgetary Plan of the Netherlands

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of the Netherlands

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EXECUTIVE SUMMARY

- After real GDP growth of 1.7% of GDP in 2019, economic activity is set to contract sharply in 2020 due to the impact of COVID-19 crisis, by 5% according to the Draft Budgetary Plan and by 5.3% according to the Commission autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to recover partially by 3.5%, implying real GDP in 2021 is set to remain 1.7 percentage points below the level attained at the end of 2019. In turn, the Commission projects real GDP to grow by 2.2% in 2021.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020 to reach a deficit of 7.2% of GDP, and to improve somewhat to 5.5% of GDP in 2021. According to the Commission, the Netherlands is projected to have a similar headline deficit of 7.2% of GDP in 2020 and a slightly worse deficit of 5.7% of GDP in 2021. On 20 May 2020, the Commission has therefore prepared a report under Article 126(3) TFEU analysing whether the Netherlands was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled, while the debt criterion was complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.
- Public debt stood at 48.7% of GDP at the end of 2019. According to the Draft Budgetary Plan, it is projected to rise to 59.1% of GDP in 2020, and to further increase to 61.1% in 2021. In its 2020 autumn forecast, the Commission expects the public debt-to-GDP ratio to reach 60.0% of GDP in 2020, and to increase more strongly to 63.5% in 2021.
- Deficit-increasing measures to fight the pandemic and to assuage its adverse socio-economic effects amount to 5.1% of GDP in 2020. These measures aim to avoid structural damage to the economy by focussing on employment protection, sustaining household purchasing power, avoiding liquidity problems and building a more resilient economy. Liquidity measures and public guarantees aimed to support firms, amount to about 7.7% of GDP in 2020 and do not entail any direct budgetary impact.
- The extension of the emergency measures together with a new set of measures supporting the recovering economic activity into 2021, amount to 1.4% of GDP in 2021. The new measures focus on education and lifelong learning, training and retraining, enabling the transition to other work and supporting vulnerable groups.
- Most of the measures planned by the Netherlands in 2021 are supporting economic activity against the background of considerable uncertainty..

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of the Netherlands (hereafter called the Plan), which was submitted on 14 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment.[3] The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of EUR672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of the Netherlands does not take into account the implementation of reforms and investments, and their associated costs, envisaged under the Recovery and Resilience Facility (RRF).

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as the Netherlands' general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value.[6] The report concluded that, after the assessment of all relevant factors, the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled. In light of the exceptional uncertainty created by the

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1 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

2 The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

3 https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

4 Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

5 https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

6 Report from the Commission of 20 May 2020, Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union on the Netherlands, Brussels, 20.05.2020, COM(2020) 530 final.

outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Plan is based on the Macroeconomic Outlook and the Medium-Term Forecast of the Netherlands Bureau of Economic Policy Analysis (Centraal Planbureau, CPB, Independent Forecast Producer). The CPB published their latest forecast on 15 September.[7] The Plan has been reviewed by the Council of State (Advisory Division of Raad van Staten, Independent Fiscal Institute), which published an opinion on the Plan on their website on 15 September 2020.[8] On 28 September 2020, the Ministry of Finance submitted the Plan to Parliament.

The Dutch economy is deeply impacted by the COVID-19 pandemic, affecting both supply and demand. The supply side was hit by disruptions and illness, as well as by restrictions on social contact and the temporary closure of some sectors. In addition, value chains were disrupted, affecting imports as well as exports. The demand-side was affected because of contact-restricting, fear of the virus, weaker confidence, subdued employment and income expectations, and a lack of ability and willingness for households and businesses to consume and invest.

After a growth rate of 1.7% in 2019, the 2021 Plan forecasts a contraction of real GDP of 5.0% in 2020.[9] The 2020 Stability Programme was based on a macro-economic scenario in which the impact of the COVID-19 pandemic was not yet integrated, and can therefore not be compared to the current estimate. For 2021, the Plan projects GDP to expand by 3.5%. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19.

Economic activity is contracting in almost all areas in 2020. Household consumption, investment as well as exports are shrinking. It is expected that the economy will recover partially in 2021, but there are significant downside risks related to the corona virus and possible policy responses.

The underlying macro-economic scenario does not fundamentally differ from the Commission’s projection. According to the Commission autumn 2020 forecast, GDP is projected to decline by 5.3% in 2020, before rebounding partially, by about 2.2% in 2021. According to the Commission forecast, domestic demand is expected to be the principal driver of the recovery, underpinned by fiscal stimulus dampening losses in disposable income and employment. However, the outlook for 2021 is weighed down by persistent COVID-19 related uncertainty and the relatively strong impact of assumed changes in EU-UK trade relations.

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7 Macro-economic forecast 2021, *Macro Economische Verkenning (MEV) 2021*, https://www.cpb.nl/sites/default /files/omnidownload/CPB-Raming-Macro-Economische-Verkenning-MEV-2021.pdf

8 https://www.raadvanstate.nl/adviezen/@122384/w06-20-0288-iii/#highlight=miljoenennota

9 Not calendar-adjusted.

In its opinion, the Council of State considers the government's projections for 2020 and 2021 favourable. The Council is of the opinion that the Plan should have taken worse economic outcomes into account.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.7	1.4	-5.0	-5.3	1.6	3.5	2.2
Private consumption (% change)	1.5	1.9	-5.8	-7.1	1.9	4.4	3.0
Gross fixed capital formation (% change)	4.6	1.3	-6.0	-6.3	2.0	4.8	3.3
Exports of goods and services (% change)	2.7	2.7	-5.2	-6.6	2.8	4.7	2.1
Imports of goods and services (% change)	3.2	3.3	-3.6	-5.5	3.4	5.8	2.4
Contributions to real GDP growth:							
- Final domestic demand	2.0	1.7	-3.0	-4.0	1.8	3.2	2.3
- Change in inventories	-0.2	-0.2	-0.5	0.2	-0.1	0.4	-0.1
- Net exports	-0.1	-0.1	-1.7	-1.5	-0.1	-0.3	-0.1
Output gap[1]	2.0	-1.2	-4.2	-4.3	-1.6	-1.6	-2.8
Employment (% change)	1.9	1.2	-2.0	-1.1	0.7	-0.3	-1.7
Unemployment rate (%)	3.4	3.2	4.3	4.4	3.4	5.9	6.4
Labour productivity (% change)	-0.2	0.2	-3.1	-4.3	0.9	3.7	3.9
HICP inflation (%)	2.7	1.6	1.4	1.1	1.6	1.4	1.3
GDP deflator (% change)	3.0	1.8	1.7	1.9	1.8	1.5	1.3
Comp. of employees (per head, % change)	2.9	3.2	4.1	2.4	3.4	0.5	1.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	9.9	9.7	8.3	8.3	9.1	7.6	8.0

Note:

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

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3. Recent and Planned Fiscal Developments

On 20 July 2020 the Council addressed recommendations to the Netherlands in the context of the European Semester.[10] In the area of public finances *and in line with the general escape clause*, the Council recommended the Netherlands to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, the Netherlands should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

[10] Council Recommendation of 20 July 2020 on the National Reform Programme of the Netherlands and delivering a Council opinion on the 2020 Stability Programme of the Netherlands, OJ C 282, 26.8.2020, p 122.

3.1. Deficit developments

The Plan projects a headline deficit of 7.2% of GDP in 2020. This entails a sizeable revision with respect to the Stability Programme of May 2020, where a surplus of 1.1% of GDP was planned. About half of the downward revision (4 percentage points) is explained by the worse macroeconomic outlook, whereas the rest can be linked to additional fiscal measures adopted by the government to contain the economic effects stemming from the lockdown and restriction measures to contain the pandemic. The Commission 2020 autumn forecast projects a similar deficit of 7.2% of GDP despite slightly worse growth projections. Both revenues and expenditures are slightly lower in the Commission forecast, leading to a broadly similar deficit figure. In any case, similarly to the macroeconomic forecasts, any budgetary projections in the current circumstances are subject to a high degree of uncertainty.

For 2021, the Plan projects a headline deficit at 5.5% of GDP. The improvement with respect to 2020 is explained by the expected economic rebound and the phasing out of the temporary measures implemented to contain the economic effects of the pandemic. The Commission 2020 autumn forecast projects a larger headline deficit, of 5.7% of GDP. This mainly reflects the somewhat smaller economic recovery expected, with similar cyclical sensitivity of public expenditure as in the Plan's projections. The revenue-to-GDP ratio in 2021 is identical to that of the Commission forecast. The expenditure-to-GDP ratio in 2021 declines somewhat more sharply in the projections in the Plan. Both forecasts assume a substantial decrease in subsidies related to the end of the COVID-19 support measures.

Both the Plan and the Commission do not assume revenue from and expenditure under the Recovery and Resilience Facility, as the government has not indicated expenditure to be financed under the Recovery and Resilience Facility in 2021. The evolution of the deficit in 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility.

The Plan projects the re-calculated structural balance to improve slightly by 0.2 percentage points from 2020 to 2021. The Commission forecast shows a larger improvement of 0.7 percentage points, caused by a more negative estimate for the cyclical position in 2021. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance.[11] Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.[12]

[11] COVID-19 related emergency measures are not considered one-offs, although most of them have been introduced for a temporary period in order to complement automatic stabilisers.

[12] This is no denial that the emergency measures are essential to preserve the health sector and keep households and businesses afloat, with a further positive impact on the economy. However, they are likely to be less efficient to support the recovery when the health-related

As in other countries, the government has provided public guarantees to sustain economic activity and sectors particularly hit by the pandemic. Should these guarantees be called, this will be reflected in public debt and deficits in the future.

Using the latest macro-economic forecast of the Netherlands Bureau of Economic Policy Analysis, the headline deficit is expected to fall below 3% of GDP by 2023, depending strongly on the economic recovery. The sustainability of public finances has deteriorated due to fast rising long-term healthcare costs, reduced rate of increase in the statutory retirement age and additional spending resulting from the Coalition Agreement.

emergency gradually vanes. Indeed, because of their very nature, the short-term multipliers of temporary emergency measures are likely to be low in the context of restrictions in economic activity, as confirmed by the sharp rise in the private sector's propensity to save (rather than consume) in 2020.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**43.7**	**43.7**	**43.5**	***42.6***	**42.2**	**43.0**	***43.0***	**43.1**	**-0.7**
of which:									
- Taxes on production and	12.0	12.0	12.0	*11.7*	11.5	12.1	*12.2*	11.7	0.2
- Current taxes on income,	13.2	13.2	13.1	*11.6*	11.9	12.7	*12.5*	13.2	-0.7
- Capital taxes	0.2	0.2	0.2	*0.3*	0.2	0.2	*0.3*	0.2	0.1
- Social contributions	14.0	14.0	13.6	*14.4*	14.1	13.6	*13.7*	13.7	-0.3
- Other (residual)	4.4	4.4	4.6	*4.6*	4.4	4.4	*4.3*	4.4	-0.1
Expenditure	**42.0**	**42.0**	**42.4**	**50.2**	**49.3**	**42.9**	**48.1**	**48.8**	**6.1**
of which:									
- Primary expenditure	41.2	41.2	41.8	49.6	48.7	42.4	47.7	48.4	6.5
of which:									
Compensation of employees	8.2	8.2	8.4	9.0	9.0	8.5	8.9	9.0	0.7
Intermediate consumption	5.9	5.9	6.0	7.2	7.0	5.9	6.5	6.4	0.6
Social payments	20.6	20.6	20.6	21.9	21.9	21.0	22.2	22.9	1.6
Subsidies	1.2	1.2	1.2	5.4	4.8	1.2	2.8	3.3	1.6
Gross fixed capital formation	3.4	3.4	3.3	3.7	3.7	3.4	3.9	3.7	0.5
Other (residual)	2.0	2.0	2.3	2.4	2.4	2.4	3.4	3.1	1.4
- Interest expenditure	0.8	0.8	0.6	0.6	0.6	0.5	0.4	0.4	-0.4
General government balance (GGB)	**1.7**	**1.7**	**1.1**	**-7.2**	**-7.2**	**0.1**	**-5.5**	**-5.7**	**-7.2**
Primary balance	**2.5**	**2.5**	**1.7**	**-6.6**	**-6.5**	**0.6**	**-5.0**	**-5.3**	**-7.5**
One-off and other temporary measures	0.2	0.2	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2
GGB excl. one-offs	**1.5**	**1.5**	**1.1**	**-7.2**	**-7.2**	**0.1**	**-5.5**	**-5.6**	**-7.0**
Output gap[1]	2.0	2.0	-1.2	-4.2	-4.3	-1.6	-1.6	-2.8	-3.5
Cyclically-adjusted balance[1]	0.5	0.5	1.8	-4.7	-4.6	1.1	-4.6	-4.0	-5.0
Structural balance (SB)[2]	**0.3**	**0.3**	**1.8**	**-4.7**	**-4.6**	**1.1**	**-4.6**	**-3.9**	**-4.8**
Structural primary balance[2]	1.1	1.1	2.4	-4.1	-3.9	1.6	-4.2	-3.5	-5.2

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

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

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

In the Plan, the public debt-to-GDP ratio is planned to rise by 10.4 percentage points, to reach 59.1% at the end of 2020. This is in part driven by the considerable contraction in nominal GDP. Likewise, the primary deficit will add almost 7 additional percentage points to the debt ratio in 2020, partly due to the measures adopted to counter the impact of the COVID-19 pandemic. The stock-flow adjustments will also contribute to the increasing debt ratio, mainly as a result of the tax deferrals and loans to strategic corporations – these transactions are not registered in the deficit accounts given their financial nature. Moreover, the Netherlands has provided liquidity guarantee measures in 2020, which create contingent liabilities.

For 2021, the Plan indicates that the government debt-to-GDP ratio will increase from 59.1% at the end of 2020 to 61.1% in 2021, below to Commission's projection of

63.5%. The debt-decreasing effects from the positive real growth, and stock-flow adjustments are set to be largely offset by the projected primary deficit. The debt-increasing contribution of interest payments is projected to remain broadly stable with respect to 2020.

For both years, low interest expenditure is assumed, based on the current favourable lending conditions (including negative interest rates on new issues debt). The Council of State moreover points to two risks related to having a higher debt level. Although the debt level remains low compared to other EU member states, it creates intergenerational questions and it raises the question of how large a buffer is needed for future (crisis) times.

The debt projections in the Plan are considerably higher than in the Stability Programme due to the revised macroeconomic scenario. In turn, the Commission 2020 autumn forecast projects an even more negative evolution for the debt ratio, especially for 2021. Part of the difference between the two sets of projections stems from the larger primary deficit forecasted by the Commission. The rest of the difference is explained by the stock flow adjustment, which in the Commission forecast is decreasing less in 2021 (it includes, amongst others, a reserve for the National Growth Fund (EUR 3 billion, 0.4% of GDP) and part of the tax delay which is recovered in 2021 (EUR 7 billion, 0.9% of GDP). For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in the budgetary projection for 2021, the 10% pre-financing of Recovery and Resilience Facility grants as a financial transaction with no impact on the budget balance in 2021, but with a public debt-reducing impact (EUR 603 million[13]). [14]

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13 In the latest proposal for the RRF regulation, the pre-financing amounts to up to 10% of the total amount of financial support in the form of non-repayable support, i.e. EUR 603 million for the Netherlands.

14 Given the limited information on the use of Recovery and Resilience Facility (RRF), the approach to its incorporation in the 2020 autumn forecast is based on technical assumptions, following to the extent possible the customary no policy-change assumption that the Commission uses in its forecast. The approach is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the (forthcoming) draft Recovery and Resilience Plans. Thus, in principle only measures planned for 2021 were included. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

Table 3. Debt developments

(% of GDP)	t	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**48.7**	**46.3**	**59.1**	**60.0**	**45.2**	**61.1**	**63.5**
Change in the ratio	-3.7	-2.4	10.4	11.3	-1.1	2.0	3.5
Contributions[2]:							
1. Primary balance	**-2.5**	**-1.7**	**6.6**	**6.5**	**-0.6**	**5.0**	**5.3**
2. "Snow-ball" effect	**-1.6**	**-0.9**	**2.3**	**2.3**	**-1.1**	**-2.3**	**-1.6**
Of which:							
Interest expenditure	0.8	0.6	0.6	0.6	0.5	0.4	0.4
Real growth effect	-0.8	-0.7	2.5	2.7	-0.7	-2.0	-1.3
Inflation effect	-1.5	-0.8	-0.8	-1.0	-0.8	-0.8	-0.7
3. Stock-flow adjustment	**0.3**	**0.2**	**1.5**	**2.4**	**0.6**	**-0.7**	**-0.2**
Of which:							
Cash/accruals difference		0.0	-0.4		0.0	1.4	
Net accumulation of financial		0.1	0.4		0.5	0.1	
of which privatisation		0.0	-0.3		0.0	-0.1	
Valuation effect & residual		0.1	2.1		0.5	-0.1	

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:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be temporary. Their use and effectiveness should be regularly reviewed by the Dutch national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, the Netherlands adopted budgetary measures to contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Plan, those budgetary measures amount to 5.1% of GDP in 2020[15]. Revenue measures imply a budgetary impact of 0.7% of GDP and include tax exemptions and the creation of a Corona fiscal reserve for the corporate sector. Expenditure measures imply a budgetary impact of 4.4% of GDP and focus on preserving employment (*NOW*, temporary emergency measure for employment opportunities, short term work scheme paid to the employer, 1.8% of GDP); supporting self-employed (*TOZO*, temporary emergency measure bridging scheme for independent entrepreneurs and flex-workers, 0.4% of GDP); and compensating entrepreneurs in affected sectors (*TOGS and TVL*, income support for entrepreneurs in affected sectors, 0.4% of GDP). The measures were announced timely and target the sectors and people most affected by the COVID-19 pandemic. From October 2020, the support package has been adapted, with support directly linked to the losses endured and increased conditionality. The latest support package lasts until July 2021.

Revenues are projected to decrease by 1.3% of GDP, half of which relates to COVID-19 related tax measures (see above) and another 0.6% of GDP relates to measures adopted prior to COVID-19 and in particular to a decrease in the lower income tax rate, an increase in the labour tax deductibility and a reduction in the lower corporate tax rate. According to the Commission forecast, while all COVID-19 related measures are temporary, these last measures are assessed as not temporary.

All the measures are presented in sufficient detail in the Plan and the 2021 Budget Memorandum[16] and thus included in the Commission forecast. The Commission forecast assesses the uptake of the support measure slightly higher, due to the worse underlying macro-economic forecast, but the uptake of subsidies lower, because of a different classification of certain measures and a lack of explanation for the very high expectation of subsidies in the Plan.

In addition, the Netherlands announced measures that, while not having any direct impact on the deficit, provide liquidity support to businesses. Those measures include tax deferrals for companies (1.5% of GDP); loans (0.2% of GDP) and guarantees (7.7% of GDP). The take-up of the guarantees as of October 2020 is estimated at 4.9% of GDP (based on Commission assessment using available public data).

Overall, the measures taken by the Netherlands in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

[15] This does not include tax deferral since this measure has no direct impact on the budget.

[16] Tweede Kamer der Staten-Generaal, Miljoenennota 2021, year 2020–2021, 35 570, nr. 1

4.2. Measures in 2021

For 2021, the Plan reports discretionary fiscal measures with a direct budgetary impact of 1.4% of GDP. The extension of the emergency support measures as well as a set of new measures aimed at supporting the envisaged recovery lead to an increase in expenditure of 2.1% of GDP.[17]

The extension concerns the three most important 2020 emergency measures (*NOW, TOZO* and *TVL*) focussing on preserving employment. Additional support is foreseen for health care, culture and education.

The recovery measures include additional spending on training and retraining and supporting transition to other work. A national scale-up facility will be established and start-ups and scale-ups will be supported. The lower corporate tax rate will decrease in 2020 and 2021 and the possibility of creating a 'corona tax reserve[18] has temporarily increased cyclical movements in corporate tax. Private investment, especially housing construction, is supported. Public investment projects are brought forward (0.2% of GDP), amongst others for railway and waterway maintenance, cycling route infrastructure and sustainability of government real estate. A National Growth Fund is set up for public investments in the earning capacity of the economy in the areas of infrastructure, research and innovation and skills (EUR 20 billion over the next five years, 2.5% of GDP).

Revenue measures imply a (positive) budgetary impact of 0.7% of GDP and include a permanent reduction of the lower income tax rate, an increase in the labour tax deductibility, a reduction in the lower corporate tax rate, the increase in the stamp duty on company buildings and an increase in health care premium.

Liquidity measures, namely in the form of guarantees on loans, continue to play an important role, preventing liquidity shortages from threatening business solvency.

Other measures connect to the strategic policy objectives of the European Green Deal: package of measures to reduce nitrogen emissions and restore nature (0.6% of GDP up to 2030), agreements on aviation pricing, and the introduction of a flight tax and carbon emission levies as of 1 January 2021.

In its opinion of 15 September 2020, the Council of State considered that the fiscal plans for 2020 and 2021 are attainable, despite the high uncertainty underlying the macroeconomic projections and the health situation. The Council describes the measures in the Plan as effective, but points to some enhanced risks, such as the increased number of guarantees with often more relaxed preconditions.

The change of ProRail from a limited company into an independent administrative body has been qualified as one-off in the Plan. The change impacts revenue and expenditure and is therefore budget neutral. The qualification meets the criteria used

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17 COVID-19 related expenditure measures add up to 1.5% of GDP in 2021.

18 The creation of the corona tax reserve makes it possible for companies to make the loss in 2020 incumbent on the profit of the year 2019, thereby paying less corporate taxes in 2020 on 2019 profits.

by the Commission for one-offs as published in the Report on Public Finances 2015.[19]

All the measures are presented in sufficient detail in the Plan and the 2021 Budget Memorandum[20] and thus included in the Commission forecast, with no difference in their assessment.

Overall, based on the information presented in the Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by the Netherlands in 2021 are supporting economic activity against the background of considerable uncertainty. The measures set out in the Draft Budgetary Plan are mostly temporary. According to the Commission forecast, only 0.1% of GDP revenue measures appear not to be temporary or matched by offsetting measures. These relate to measures adopted prior to COVID-19 and in particular to lowering of labour taxes. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that the Netherlands will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

[19] European Commission, Report on Public Finances in EMU 2015, Institutional Papers 45, December 2015, Brussels, 218pp.

[20] Tweede Kamer der Staten-Generaal, Miljoenennota 2021, year 2020–2021, 35 570, nr. 1

Table 4.1.a. Main discretionary measures reported in the Draft Budgetary Plan

List of Measures	Description	ESA Code (Expenditure / Revenue component)		Adoption Status	Budgetary impact (% of GDP - change from previous year)	
					2020	2021
1	Compensation of employees	D.1	expenditure	Credibly planned	0.2	-0.1
2	Intermediate consumption	P.2	expenditure	Credibly planned	1.1	-0.4
3	Social payments, of which, where applicable, unemployment benefits incl	D.62+D.63 +D.621+D. 624+D.631	expenditure	Credibly planned	0.2	0.1
4	Subsidies	D.3	expenditure	Credibly planned	3.0	-1.5
5	Gross fixed capital formation	P.51	expenditure	Credibly planned	0.4	0.0
6	Capital transfers	D.9	expenditure	Credibly planned	0.3	0.1
7	Environmental taxes, fuel excises, levy on purchase new car and motor tax	D.2	revenue	Adopted	0.1	0.0
8	Stamp duty on change of ownership of homes and company buildings (offices, etc...)	D.2	revenue	Adopted	0.0	-0.1
9	Lower taxes on labour	D.5	revenue	Adopted	0.5	0.4
10	Prorail: corporate tax (vpb)	D.5	revenue	Credibly planned	0.0	-0.6
11	Prorail: dividend tax (dividendbelasting)	D.5	revenue	Credibly planned	0.0	-0.2
12	Corporate taxes and tax on dividends (including fiscal corona reserve)	D.5	revenue	Adopted	0.5	-0.6
13	Prorail: value added tax (btw)	D.5	revenue	Credibly planned	0.0	-0.1
14	Social contributions for employer not being health care related	D.61	revenue	Adopted	-0.1	0.0
15	Health care contributions (cure)	D.61	revenue	Adopted	0.1	-0.2
				Total	6.3	-3.3

Note: a positive budgetary impact reflects an increase in the government deficit

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of Measures	Description	Adoption Status	Maximum guarantee framework available (% of GDP)	Current take-up* (actual contingent liability, % of GDP)
1	Guarantee business financing (GO)	Adopted	1.2%	0.1%
2	Supplier credit	Adopted	1.5%	0.0%
3	KLM	Adopted	0.3%	0.3%
4	Guarantee SMEs (BMKB)	Adopted	0.1%	0.1%
5	Small credit corona (KKC)	Adopted	0.1%	0.0%
6	Other (not specified)	Adopted	0.1%	0.1%
7	European investment bank (EIB)	Adopted	0.1%	0.1%
8	NGEU	Adopted	3.5%	3.5%
9	SURE	Adopted	0.8%	0.8%
		Total	7.7%	4.9%

* Based on Commission assessment using available public data (this information was not available in the Plan).

5. ANNEX

Mandatory variables not included in the Draft Budgetary Plan

The following mandatory data were not explicitly provided:

- Table 0b. Main assumptions: interest rates, evolution of deposits, evolution of loans and NPL trends.
- Table 1a. Macroeconomic Prospects: attributable effect to the estimated impact of aggregated budgetary measures on economic growth, 2019 levels of potential GDP contributions.
- Table 1b. Price developments: 2019 levels of private consumption, export and import deflators.
- Table 7. Divergence from latest SP: 2019 % for Draft budgetary plan.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.