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# Assessment of the 2019 Stability Programme for

# The Netherlands

***(Note prepared by DG ECFIN staff)***

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## EXECUTIVE SUMMARY

The Netherlands is subject to the preventive arm of the SGP. With a gross public debt below 60% of GDP, the Netherlands is compliant with the debt criterion.

The Dutch economy expanded by 2.7% in 2018 in real terms. Economic growth is projected to decline to 1.6% in both 2019 and 2020, according to the Commission 2019 spring forecast. Growth is expected to be mainly driven by robust domestic demand, while the external outlook has weakened. With a short-term growth outlook at the level of potential growth, the output gap is forecast to remain positive at around 1% of potential GDP. Employment growth is expected to moderate, leading to a stabilising unemployment rate around 3.5%. A tight labour market and higher indirect taxes lead to accelerating prices and wages in 2019. The macroeconomic scenario included in the Stability Programme is plausible.

In 2018, the headline budget balance reached a surplus of 1.5% of GDP, following robust revenue growth and growth in government expenditure remaining below expectations due to implementation lags, in particular related to infrastructure and defence. According to the Stability Programme, the general government budget surplus is set to decrease to 1.2% of GDP in 2019 and 0.8% in 2020, before falling further to 0.2% in 2021 and a balanced budget by 2022. Both increasing government expenditures, as well as a lowering of taxes contribute to a slightly expansionary fiscal stance. In structural terms, based on recalculated output gaps[1], the budget balance increased to a surplus of 0.8% of potential GDP in 2018, well above the medium-term budgetary objective (set at -0.5%). In the programme, the structural budget surplus is expected to decline to 0.4% in 2019 and 0.5% in 2020. Risks to the short-term fiscal outlook mainly come from the macroeconomic side, such as a worsening of the economic climate or lower-than-projected wage growth, which would reduce income tax revenue. The projected increase in public expenditure on long-term care points to medium risk in long-term fiscal sustainability.

Overall, the Netherlands is expected to remain compliant with the medium-term budgetary objective in 2019 and 2020, leaving scope to use fiscal and structural policies to support an upward trend in investment.

[1] In this document, the output gaps were recalculated by the Commission based on the information in the programme, following the commonly agreed methodology.

## 1. INTRODUCTION

On 29 April 2019, the Netherlands submitted its April 2019 Stability Programme (hereafter called Stability Programme), covering the period 2018-2022. It was sent to parliament on 15 April. The fiscal council (Advisory Division, Council of State) provided an opinion on it, which was published on its website on April 15.[2]

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 budgetary objective (MTO).

This document complements the Country Report published on 27 February 2019[3] 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's 2019 spring forecast. Section 3 presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview of the medium-term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on the 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 of long-term sustainability risks. Section 6 discusses the fiscal framework. Finally, Section 7 summarises the compliance with the SGP.

## 2. MACROECONOMIC DEVELOPMENTS

The projections used in the Stability Programme are based on the forecast of the CPB Netherlands Bureau of Economic Policy Analysis (Centraal Planbureau, CPB) and cover the period 2018-2022.[4] Economic growth reached 2.7% in 2018 and is expected to slow down to 1.5% in both 2019 and 2020. This is broadly in line with the Commission 2019 spring forecast, which projects economic growth of 1.6% in 2018 and 2019.

According to the Stability Programme, growth is expected to be mainly driven by domestic demand, with private consumption increasing by 1.3% in 2019 and by 1.5% in 2020. That said, the growth contribution of household spending is set to be substantially smaller than in previous years due to moderating employment growth and taking the recent fall of sentiment indicators into account. Real disposable household income is expected to continue growing, primarily thanks to accelerating wage growth. The impact of government policy on real disposable household income is increasingly supportive, as a rise in indirect taxes in 2019 is more than compensated for by a lowering of direct taxes in 2019 and 2020.[5] Investment activity has recovered sharply in recent years. However, despite peaking capacity utilisation rates and a low cost of capital, growth in private investment is projected to decline, due to lower production growth and increased worldwide uncertainties. Residential investment is also expected to soften, as the housing market cycle matures and capacity constraints in the construction sector have become more prevalent. With imports outpacing export growth, net exports are set to contribute negatively to growth in 2019 and 2020.

[2] https://www.raadvanstate.nl/actueel/nieuws/@114906/raad-state-0/
[3] https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-netherlands_en_0.pdf
[4] Some projected figures for 2018, including GDP growth and public finances, have been updated with outturn data, as notified by Statistics Netherlands.
[5] See box on the tax wedge in the Commission Staff Working Document containing an analysis of the Draft Budgetary Plan of The Netherlands, SWD(2018) 525 final.

Compared to the Draft Budgetary Plan (DBP) for 2019, the Stability Programme projects 1.1 percentage points lower GDP growth in 2019 as the result of both a weaker domestic outlook and lower net exports. On the domestic side, private consumption and investment are negatively affected by deteriorating macroeconomic conditions and falling sentiment indicators. Real public expenditure growth is also somewhat weaker than assumed in the DBP, due to implementation lags, particular in the area of infrastructure and defense. On the external side, the openness of the Dutch economy makes it sensitive to the weaknesses in manufacturing in main trading partners.

**Table 1: Comparison of macroeconomic developments and forecasts**

| | 2018 | | 2019 | | 2020 | | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| | COM | SP | COM | SP | COM | SP | SP | SP |
| Real GDP (% change) | 2.7 | 2.7 | 1.6 | 1.5 | 1.6 | 1.5 | 1.2 | 1.0 |
| Private consumption (% change) | 2.5 | 2.5 | 1.4 | 1.3 | 1.6 | 1.5 | 1.2 | 1.1 |
| Gross fixed capital formation (% change) | 4.3 | 4.3 | 3.2 | 2.7 | 2.1 | 2.4 | 1.1 | 1.2 |
| Exports of goods and services (% change) | 2.7 | 2.7 | 1.6 | 1.1 | 2.9 | 2.3 | 3.4 | 3.3 |
| Imports of goods and services (% change) | 2.8 | 2.8 | 1.9 | 1.5 | 3.4 | 3.0 | 3.7 | 3.7 |
| *Contributions to real GDP growth:* | | | | | | | | |
| - Final domestic demand | 2.3 | 2.4 | 1.9 | 1.7 | 1.7 | 1.7 | 1.0 | 1.0 |
| - Change in inventories | 0.1 | 0.0 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Net exports | 0.3 | 0.3 | 0.0 | -0.2 | -0.1 | -0.2 | 0.1 | 0.0 |
| Output gap[1] | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 | 0.7 | 0.4 | 0.1 |
| Employment (% change) | 2.5 | 2.5 | 1.4 | 1.3 | 0.7 | 0.5 | 0.0 | -0.3 |
| Unemployment rate (%) | 3.8 | 3.8 | 3.5 | 3.8 | 3.6 | 4.0 | 4.1 | 4.2 |
| Labour productivity (% change) | 0.1 | 0.1 | 0.2 | 0.2 | 0.9 | 1.1 | 1.2 | 1.3 |
| HICP inflation (%) | 1.6 | 1.6 | 2.5 | 2.3 | 1.5 | 1.4 | 1.5 | 1.5 |
| GDP deflator (% change) | 2.2 | 2.1 | 2.4 | 2.2 | 1.6 | 1.4 | 1.7 | 1.7 |
| Comp. of employees (per head, % change) | 2.2 | 2.4 | 2.7 | 3.4 | 2.8 | 2.6 | 2.9 | 2.6 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 10.9 | 10.1 | 10.0 | 9.7 | 9.4 | 9.0 | 9.0 | 8.9 |

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 2019 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 domestic demand and higher export growth in 2019, leading to a marginally higher 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.[6] A small

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

difference in the unemployment rate is related to a later cut-off date for the Commission forecast, which allowed taking more recent data into account.

The output gap, as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology, is projected to decrease from 1.1% of GDP in 2018 to 0.9% in 2019 and 0.7% in 2020, which is slightly below the Commission projections for the output gap. Overall, the Stability Programme uses plausible macroeconomic assumptions.

# 3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

## 3.1. BUDGET DEVELOPMENTS IN 2018 AND 2019

The general government balance reached a surplus of 1.5% of GDP in 2018, which is significantly higher than projected in the DBP 2019 (+0.8% of GDP) and in the Stability Programme 2018 (+0.7% of GDP).

The difference in 2018 government net lending compared to the DBP can be attributed to both higher revenues and lower expenditures. On the revenue side, taxes on income and wealth were 0.3 percentage points of GDP higher than projected in the DBP. Government primary expenditure was 0.5 percentage points lower than assumed in the DBP. Within primary expenditure, the difference with the DBP was relatively widespread with compensation of employees, intermediate consumption, social payments, subsidies and capital formation all 0.1 percentage point lower than expected. Interest expenditure came out 0.2 percentage points higher than expected.

The better than expected fiscal data confirm a positive underlying trend in the budgetary position linked to the economic expansion and the strong labour market performance, which is expected to carry over into 2019 and 2020. For the current year, the Stability Programme expects a government surplus of 1.2% of GDP, compared to a projected surplus of 1.0% of GDP in the DBP. The difference can be attributed to tax-rich growth and further delays in government expenditure; no notable measures have been announced since the DBP.

## 3.2. MEDIUM-TERM STRATEGY AND TARGETS

The 2019 Stability Programme presents the national medium-term budgetary plan covering the period up to 2022. 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 current government by the end of October 2017, a coalition agreement including a detailed policy programme was published. This coalition agreement, which covers the period 2018-2021, has been endorsed by parliament and is currently being implemented. The budgetary projections over the programme period include the government's agreed measures and are based on a no-policy-change assumption. The government has reset its MTO at a structural balance of -0.5% of GDP.[7]

According to the Stability Programme, the general government surplus is set to decrease from 1.5% of GDP in 2018 to 0.0% of GDP in 2022, as is illustrated in Table 2. This is driven by

[7] 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.

both higher government expenditure and lower government revenues. Based on recalculated output gaps in line with the commonly agreed methodology, the Stability Programme projects the structural balance to decrease from 0.8% of GDP in 2018 to -0.2% of GDP in 2022, staying above the MTO.

Compared to the DBP, the Stability Programme projects a higher headline budget surplus over the programme period and a substantially higher surplus in structural terms, which is related to a much lower cyclical correction, due to the downward revision in the actual GDP growth leading to a smaller output gap. The use of new updated budget semi-elasticities makes a small difference with the DBP projections for the structural budget balance.[8]

The current projection for the budget balance is broadly in line with the Commission spring forecast for the period 2018-2019 in nominal terms. However, taking the output gap into account, the cyclically adjusted balance decreases from 0.7% of GDP in 2019 to 0.4% of GDP in 2020 in the Stability Programme, slightly more moderately than in the Commission forecast (a decline from 0.9% in 2019 to 0.2% in 2020). This difference is explained by both a marginally higher headline balance forecast for the current year, as well as a slightly higher and more stable positive output gap in the Commission forecast. The comparison of the projections of the structural budget balance is further affected by the inclusion of an updated assessment with respect to the impact of one-off measures in the Commission forecast.[9] Overall, looking at the change of the structural budget balance between 2018 and 2022 (the final column in Table 2), the government's fiscal stance is supportive.

[8] See *Report on Public Finances in the EMU 2018*, Part II, Section 2. Update of the semi-elasticities used in the context of fiscal surveillance at https://ec.europa.eu/info/publications/economy-finance/report-public-finances-emu-2018_en

[9] The Stability Programme and the Commission forecast both assign a temporary revenue growth to the measures *Pensioen in Eigen Beheer* (a measure that restricts director major-shareholders to save for old age via their own firm) and *Rekening Courant Maatregel* (a measure that restricts director major-shareholders to borrow from their own firm without paying income taxes). The assessment of the budgetary impact of these measures is updated by the ministry of finance after the publication date of the CPB forecast and draft Stability Programme.

**Table 2: Composition of the budgetary adjustment**

| (% of GDP) | 2018 | 2019 | | 2020 | | 2021 | 2022 | Change: 2018-2022 |
|---|---|---|---|---|---|---|---|---|
| | COM | COM | SP | COM | SP | SP | SP | SP |
| **Revenue** | **43.6** | **44.0** | **44.3** | **43.6** | **43.9** | **43.3** | **43.2** | **-0.6** |
| *of which:* | | | | | | | | |
| - Taxes on production and imports | 11.7 | 12.2 | 12.2 | 12.3 | 12.4 | 12.4 | 12.4 | 0.6 |
| - Current taxes on income, wealth, etc. | 12.5 | 12.9 | 13.0 | 12.4 | 12.4 | 12.2 | 12.3 | -0.3 |
| - Social contributions | 14.5 | 14.1 | 14.2 | 14.3 | 14.3 | 14.0 | 14.0 | -0.5 |
| - Other (residual) | 5.0 | 4.8 | 4.9 | 4.7 | 4.8 | 4.7 | 4.5 | -0.4 |
| **Expenditure** | **42.2** | **42.6** | **43.0** | **42.8** | **43.1** | **43.1** | **43.3** | **1.1** |
| *of which:* | | | | | | | | |
| - Primary expenditure | 41.3 | 41.8 | 42.3 | 42.2 | 42.5 | 42.5 | 42.7 | 1.4 |
| *of which:* | | | | | | | | |
| Compensation of employees | 8.2 | 8.4 | 8.3 | 8.4 | 8.4 | 8.4 | 8.3 | 0.1 |
| Intermediate consumption | 5.8 | 5.9 | 5.8 | 5.9 | 5.9 | 5.9 | 5.8 | 0.0 |
| Social payments | 20.6 | 20.8 | 20.8 | 20.9 | 21.1 | 21.3 | 21.5 | 0.9 |
| Subsidies | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 0.0 |
| Gross fixed capital formation | 3.4 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 0.1 |
| Other (residual) | 2.0 | 2.1 | 2.7 | 2.1 | 2.3 | 2.3 | 2.4 | 0.4 |
| - Interest expenditure | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | -0.3 |
| **General government balance (GGB)** | **1.5** | **1.4** | **1.2** | **0.8** | **0.8** | **0.2** | **0.0** | **-1.5** |
| **Primary balance** | **2.4** | **2.2** | **1.9** | **1.5** | **1.4** | **0.8** | **0.6** | **-1.8** |
| One-off and other temporary | 0.0 | 0.2 | 0.3 | 0.0 | -0.1 | 0.0 | 0.1 | 0.0 |
| **GGB excl. one-offs** | **1.5** | **1.3** | **0.9** | **0.8** | **0.9** | **0.2** | **-0.1** | **-1.5** |
| Output gap[1] | 1.1 | 1.0 | 0.9 | 0.9 | 0.7 | 0.4 | 0.1 | -0.9 |
| Cyclically-adjusted balance[1] | 0.8 | 0.9 | 0.7 | 0.2 | 0.4 | -0.1 | -0.1 | -0.9 |
| **Structural balance[2]** | **0.8** | **0.7** | **0.4** | **0.2** | **0.5** | **-0.1** | **-0.2** | **-1.0** |
| Structural primary balance[2] | 1.7 | 1.5 | 1.1 | 0.9 | 1.1 | 0.5 | 0.4 | -1.3 |

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.

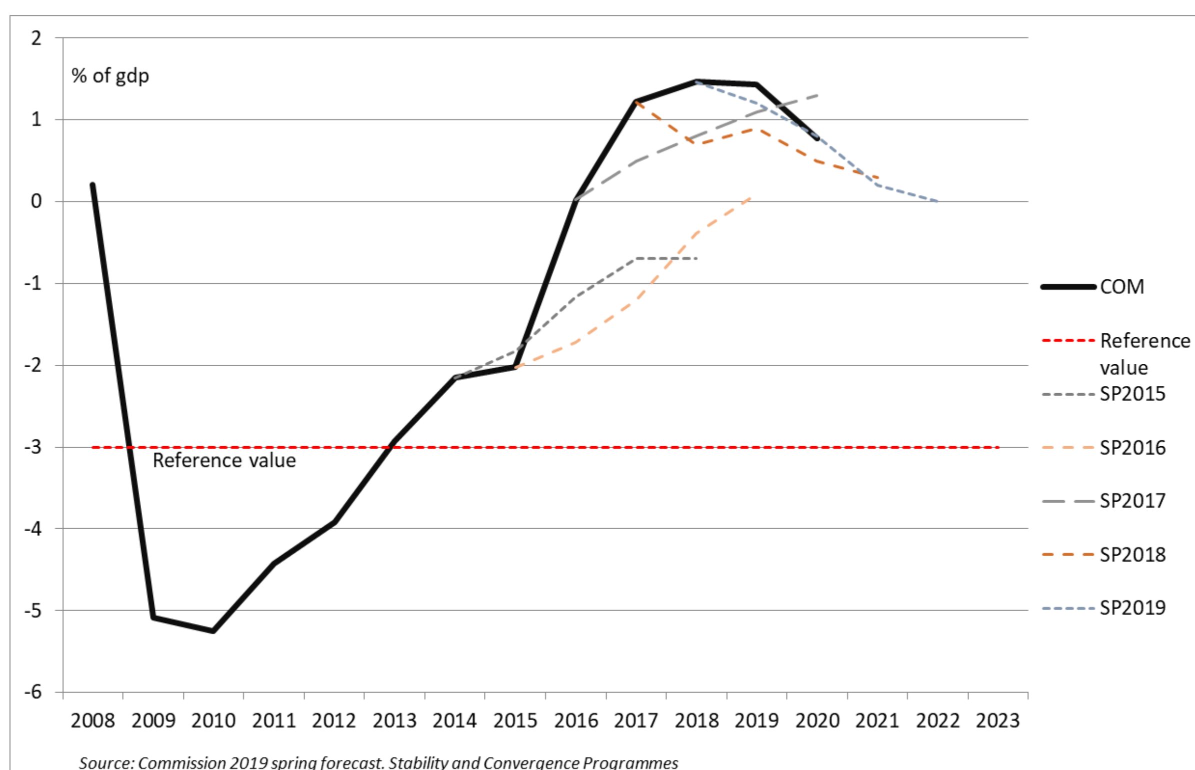
[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

*Source* :

*Stability Programme (SP); Commission 2019 spring forecasts (COM); Commission calculations.*

As is visible in Figure 1, the 2018 headline budget surplus is substantially more positive than anticipated in preceding Stability Programmes. For 2019 and 2020, the current update is 0.3 percentage points more positive compared to the preceding Stability Programme for the reasons explained above.

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




## 3.3. MEASURES UNDERPINNING THE PROGRAMME

The main measures underpinning the programme stem from the 2018 draft budgetary plan of the Netherlands 2018 and subsequent budgetary programmes. In the current government's term, expenditure on defence, education (including primary school teachers), child-related transfers and infrastructure is increasing. In its 2019 Budgetary Plan, the government also highlights increased spending on research and innovation. In 2019 and 2020, personal income taxes are lowered, which is partly financed by an increase of the lower tariff in the Value Added Tax from 6% to 9%, implemented at the start of this year. No notable new measures have been announced beyond what was included in the DBP.

## 3.4. DEBT DEVELOPMENTS

Government debt was 52.4% of GDP at the end of 2018, well below the 60% of GDP Treaty reference value. The Stability Programme projects a decline to 49.1% of GDP in 2019, and a further decline to 44.6% of GDP in 2022, driven by both primary budget surpluses and denominator effects. The debt development is broadly consistent with the Commission forecast. Both expect the debt-to-GDP ratio to fall to around 47% of GDP in 2020.

**Table 3: Debt developments**

| (% of GDP) | Average 2013-2017 | 2018 | 2019 | | 2020 | | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| | | | COM | SP | COM | SP | SP | SP |
| **Gross debt ratio[1]** | **63.8** | **52.4** | **49.1** | **49.1** | **46.7** | **47.1** | **45.7** | **44.6** |
| Change in the ratio | -1.9 | -4.5 | -3.4 | -3.3 | -2.3 | -2.0 | -1.4 | -1.1 |
| *Contributions[2]:* | | | | | | | | |
| **1. Primary balance** | **-0.1** | **-2.4** | **-2.2** | **-1.9** | **-1.5** | **-1.4** | **-0.8** | **-0.6** |
| **2. "Snow-ball" effect** | **-0.3** | **-1.7** | **-1.2** | **-1.2** | **-0.9** | **-0.8** | **-0.7** | **-0.6** |
| *Of which:* | | | | | | | | |
| Interest expenditure | 1.3 | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Growth effect | -1.0 | -1.5 | -0.8 | -0.8 | -0.8 | -0.7 | -0.5 | -0.4 |
| Inflation effect | -0.5 | -1.2 | -1.2 | -1.1 | -0.8 | -0.7 | -0.8 | -0.7 |
| **3. Stock-flow adjustment** | **-1.5** | **-0.4** | **0.1** | **-0.2** | **0.0** | **0.2** | **0.1** | **0.1** |
| *Of which:* | | | | | | | | |
| Cash/accruals diff. | | | | -0.3 | | -0.1 | -0.1 | -0.1 |
| Acc. financial assets | | | | -0.1 | | 0.1 | 0.2 | 0.0 |
| Privatisation | | | | 0.0 | | 0.0 | 0.0 | 0.0 |
| Val. effect & residual | | | | 0.0 | | 0.1 | 0.2 | 0.0 |

Notes:

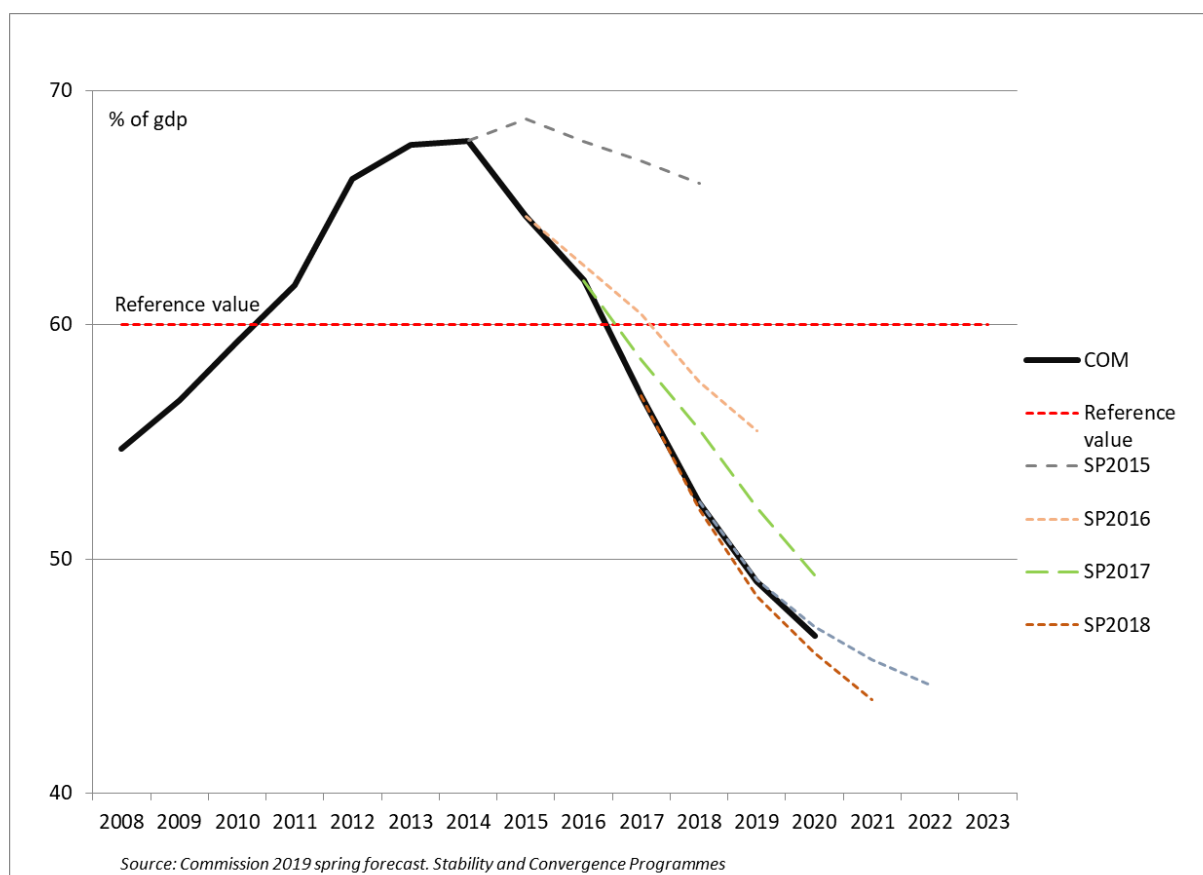
[1] End of period.

[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 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.*

**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 high sensitivity of the budget balance to the economic cycle in the Netherlands.[10] In the recent past some larger expenditures in the field of defence and infrastructure encountered implementation delays. A continuation of these spending lags would be an upside risk for the budget balance. There are some implementation risks in the larger pension- and labour market reforms envisaged by the current government. However, these structural reforms have a relatively limited short-term direct budgetary impact and, therefore, pose little risk 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 and should ensure compliance with the MTO, set at -0.5% of GDP. Under the European Semester in July 2018 the Council considered that the Netherlands complied with the Stability and Growth Pact.

With a structural balance of 0.8% of GDP, the Netherlands was above its MTO of -0.5% of GDP in 2018. Both the assessment of the recalculated Stability Programme as well as the

[10] With 0.605 the Netherlands has the third highest budget semi-elasticity in the EU.

Commission 2019 spring forecast indicate an overachievement of the MTO over the programme horizon and, thus, compliance with the provisions of the preventive arm.

**Table 4: Compliance with the requirements under the preventive arm**

| (% of GDP) | 2018 | 2019 | | 2020 | |
|---|---|---|---|---|---|
| **Background budgetary indicators**[1] | | | | | |
| Medium-term budgetary objective (MTO) | -0.5 | -0.5 | | -0.5 | |
| Structural balance[2] (COM) | 0.8 | 0.7 | | 0.2 | |
| ***Setting the required adjustment to the MTO*** | | | | | |
| Structural balance based on freezing (COM) | 0.3 | 0.7 | | - | |
| Position vis-à-vis the MTO[3] | At or above the MTO | At or above the MTO | | At or above the MTO | |
| Required adjustment[4] | 0.0 | 0.0 | | 0.0 | |
| Required adjustment corrected[5] | -1.1 | -0.8 | | -1.2 | |
| Corresponding expenditure benchmark[6] | 5.0 | 5.5 | | 5.9 | |
| ***Compliance with the required adjustment to the MTO*** | | | | | |
| | **COM** | **SP** | **COM** | **SP** | **COM** |
| *Structural balance pillar* | | | | | |
| Change in structural balance[7] | Compliance | | | | |
| One-year deviation from the required adjustment[8] | | | | | |
| Two-year average deviation from the required adjustment[8] | | | | | |
| *Expenditure benchmark pillar* | | | | | |
| Net public expenditure annual growth corrected for one-offs[9] | | | | | |
| One-year deviation adjusted for one-offs[10] | | | | | |
| Two-year deviation adjusted for one-offs[10] | | | | | |
| ***Finding of the overall assessment*** | | | | | |

***Legend***

'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

'*Irrelevant for the Significant Deviation Procedure*' - a SDP would not be opened only based on the two-year deviation if the MTO has reached (at the time of the freezing or on the base of the last storage) in one of the two years.

***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 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, 2018 Edition, p.38). In case of a SDP, the requirement corresponds to the Council recommendation when available, otherwise it refers to the Commission recommendation to the Council.

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

[6] 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.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2018) is carried out on the basis of Commission 2019 spring forecast.

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

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] 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.

*Source*:

*Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.*

## 5. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

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 macro-financial and competitiveness sides of the economy.

Based on Commission forecasts and a no-policy-change scenario beyond the forecast horizon, government debt, estimated at 49.1% of GDP in 2019, is expected to decrease to 36.2% of GDP in 2029, thus remaining below the 60% of GDP Treaty threshold.[11] Over this horizon, government debt is projected to remain below its 2019 level. This implies low risks in the medium term. Sensitivity analysis also point to low risks for debt sustainability.[12] The full implementation of the Stability Programme would keep debt on a decreasing path, remaining below the 60% of the GDP reference value in 2028. Overall, this highlights low risks for the country from debt sustainability analysis in the medium term.

The medium-term fiscal sustainability risk indicator S1, which measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60% by 2033, is at -2 percentage points of GDP. This is primarily related to the initial budgetary position (contributing -1.4 percentage points of GDP) and indicates low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -1.9 percentage points of GDP, pointing to a similar medium-term risk. Based on the debt sustainability analysis and the S1 indicator, overall medium-term fiscal sustainability risks are, therefore, low.

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 2.7 percentage points of GDP. This points to medium long-term fiscal sustainability risks. This is primarily related to the projected increase in the costs of ageing with the projected increase in long-term care costs contributing 2.0 percentage points of GDP to the indicator. Full implementation of the programme would put the S2 indicator at 3.2% of GDP, indicating similar long-term risk. The debt sustainability analysis discussed above points to low risks so that, overall, long-term fiscal sustainability risks are assessed as medium for the Netherlands.

[11] The projected costs of ageing that are used to compute the debt projections and the fiscal sustainability indicators are based on the projections of the 2018 Ageing Report.

[12] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Fiscal Sustainability Report 2018 at https://ec.europa.eu/info/publications/economy-finance/fiscal-sustainability-report-2018_en).

## Table 5: Sustainability indicators

| Time horizon | | | | Commission Scenario | | Stability Programme Scenario | |
|---|---|---|---|---|---|---|---|
| **Short-term** | | | | **LOW risk** | | | |
| | **S0 indicator [1]** | | | 0.1 | | | |
| | | Fiscal subindex | | 0.0 | LOW risk | | |
| | | Financial & competitiveness subindex | | 0.1 | LOW risk | | |
| **Medium-term** | | | | **LOW risk** | | | |
| | **DSA [2]** | | | LOW risk | | | |
| | **S1 indicator [3]** | | | -2.0 | LOW risk | -1.9 | LOW risk |
| of which | | Initial Budgetary Position | | -1.4 | | -0.9 | |
| | | Debt Requirement | | -1.0 | | -1.4 | |
| | | Cost of Ageing | | 0.4 | | 0.3 | |
| | | *of which* | Pensions | -0.2 | | -0.1 | |
| | | | Health care | 0.2 | | 0.2 | |
| | | | Long-term care | 0.6 | | 0.4 | |
| | | | Other | -0.2 | | -0.2 | |
| **Long-term** | | | | **MEDIUM risk** | | | |
| | **DSA [2]** | | | LOW risk | | | |
| | **S2 indicator [4]** | | | 2.7 | MEDIUM risk | 3.2 | MEDIUM risk |
| of which | | Initial Budgetary Position | | -0.1 | | 0.5 | |
| | | Cost of Ageing | | 2.8 | | 2.8 | |
| | | *of which* | Pensions | 0.5 | | 0.6 | |
| | | | Health care | 0.6 | | 0.5 | |
| | | | Long-term care | 2.0 | | 1.8 | |
| | | | Other | -0.2 | | -0.2 | |

Source: Commission services; 2019 Stability Programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2019 forecast until 2020. The stability 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 2033. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2021 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 2018.

## 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 expenditure ceilings are adjusted for cyclical changes in unemployment and social expenditures.

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[13], the Advisory Division states that the executed budget of 2018 complied with the numerical fiscal rules, as the structural balance met the MTO with a positive margin, and the debt-to-GDP ratio remained 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 2019 and 2020, and that gross government debt will continue to fall, implying compliance with the fiscal rules.

The macroeconomic forecast underlying the Stability Programme was prepared by the CPB. While the CPB is a government body, it enjoys independence, formally guaranteed by law.[14] 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.

## 7. SUMMARY

In 2018, the Netherlands recorded headline and structural budget surpluses, and remained above its MTO, while the debt-to-GDP ratio remained below the 60% reference value, 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 2019 and 2020, and the debt-to-GDP ratio is projected to decline further. This is in line with the Commission 2019 spring forecast and leaves scope to use fiscal and structural policies to support an upward trend in investment.

[13] https://www.raadvanstate.nl/actueel/nieuws/@114906/raad-state-0/

[14] 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.

## 8. ANNEXES

### Table I. Macroeconomic indicators

| | 2001-2005 | 2006-2010 | 2011-2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|
| **Core indicators** | | | | | | | | |
| GDP growth rate | 1.3 | 1.4 | 0.8 | 2.2 | 2.9 | 2.7 | 1.6 | 1.6 |
| Output gap [1] | -1.1 | -0.2 | -2.3 | -1.0 | 0.2 | 1.1 | 1.0 | 0.9 |
| HICP (annual % change) | 2.8 | 1.5 | 1.7 | 0.1 | 1.3 | 1.6 | 2.5 | 1.5 |
| Domestic demand (annual % change) [2] | 1.0 | 1.3 | 0.9 | -0.7 | 2.2 | 2.7 | 1.8 | 1.9 |
| Unemployment rate (% of labour force) [3] | 4.6 | 4.5 | 6.5 | 6.0 | 4.9 | 3.8 | 3.5 | 3.6 |
| Gross fixed capital formation (% of GDP) | 20.9 | 21.5 | 19.4 | 20.0 | 20.5 | 20.9 | 21.2 | 21.4 |
| Gross national saving (% of GDP) | 26.4 | 27.5 | 28.5 | 28.5 | 31.2 | 32.2 | 31.4 | 30.9 |
| **General Government (% of GDP)** | | | | | | | | |
| Net lending (+) or net borrowing (-) | -1.6 | -2.0 | -3.1 | 0.0 | 1.2 | 1.5 | 1.4 | 0.8 |
| Gross debt | 49.7 | 51.8 | 65.6 | 61.9 | 57.0 | 52.4 | 49.1 | 46.7 |
| Net financial assets | -31.6 | -27.9 | -41.9 | -42.4 | -37.7 | n.a | n.a | n.a |
| Total revenue | 41.7 | 42.7 | 43.0 | 43.6 | 43.7 | 43.6 | 44.0 | 43.6 |
| Total expenditure | 43.3 | 44.8 | 46.1 | 43.6 | 42.5 | 42.2 | 42.6 | 42.8 |
| *of which:* Interest | 2.5 | 2.0 | 1.6 | 1.2 | 1.0 | 0.9 | 0.8 | 0.7 |
| **Corporations (% of GDP)** | | | | | | | | |
| Net lending (+) or net borrowing (-) | 8.2 | 8.9 | 7.9 | 5.0 | 6.9 | 7.4 | 6.9 | 6.9 |
| Net financial assets; non-financial corporations | -163.0 | -127.6 | -116.3 | -119.6 | -121.4 | n.a | n.a | n.a |
| Net financial assets; financial corporations | -6.0 | 4.7 | -1.7 | -7.9 | -2.9 | n.a | n.a | n.a |
| Gross capital formation | 10.0 | 10.5 | 11.2 | 11.3 | 11.5 | 11.7 | 11.6 | 11.7 |
| Gross operating surplus | 26.2 | 27.6 | 27.7 | 27.2 | 26.9 | 26.7 | 26.3 | 26.4 |
| **Households and NPISH (% of GDP)** | | | | | | | | |
| Net lending (+) or net borrowing (-) | -1.1 | -1.1 | 3.6 | 2.9 | 2.3 | 2.0 | 1.7 | 1.6 |
| Net financial assets | 146.2 | 128.5 | 185.8 | 232.6 | 221.6 | n.a | n.a | n.a |
| Gross wages and salaries | 39.0 | 37.3 | 37.6 | 37.1 | 36.9 | 36.7 | 36.8 | 37.0 |
| Net property income | 5.3 | 4.7 | 6.7 | 7.2 | 6.7 | 6.4 | 6.3 | 6.1 |
| Current transfers received | 21.2 | 19.9 | 21.9 | 21.1 | 20.8 | 20.2 | 19.9 | 20.1 |
| Gross saving | 6.0 | 6.0 | 8.2 | 8.7 | 8.1 | 8.0 | 7.8 | 7.7 |
| **Rest of the world (% of GDP)** | | | | | | | | |
| Net lending (+) or net borrowing (-) | 5.5 | 5.8 | 8.4 | 7.9 | 10.4 | 10.9 | 10.0 | 9.4 |
| Net financial assets | 56.2 | 24.5 | -22.8 | -59.7 | -56.8 | n.a | n.a | n.a |
| Net exports of goods and services | 7.2 | 8.0 | 9.4 | 10.2 | 10.7 | 10.6 | 10.2 | 10.0 |
| Net primary income from the rest of the world | -0.1 | -0.6 | 0.9 | -1.5 | 0.4 | 1.1 | 0.7 | 0.3 |
| Net capital transactions | 0.0 | -0.1 | -0.5 | -0.2 | -0.1 | -0.1 | -0.1 | -0.1 |
| Tradable sector | 40.7 | 39.0 | 38.6 | 38.2 | 38.3 | 37.9 | n.a | n.a |
| Non tradable sector | 48.7 | 50.4 | 51.5 | 51.4 | 51.3 | 51.6 | n.a | n.a |
| *of which:* Building and construction sector | 4.9 | 5.0 | 4.1 | 4.0 | 4.0 | 4.2 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 96.5 | 99.8 | 99.6 | 96.4 | 96.8 | 98.1 | 97.6 | 97.4 |
| Terms of trade goods and services (index, 2000=100) | 101.1 | 101.0 | 98.9 | 100.5 | 100.1 | 100.0 | 99.9 | 99.9 |
| Market performance of exports (index, 2000=100) | 100.9 | 99.2 | 103.2 | 102.8 | 103.5 | 103.4 | 102.2 | 101.9 |

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2015 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 2019 spring forecast*

## Mandatory variables not included in the Stability Programme

The Stability Programme contains all mandatory variables.