DRAFT BUDGET

THE NETHERLANDS

OCTOBER 2020

INTRODUCTION

In this Draft Budgetary Plan, the government presents its economic and budgetary prospects. The European Commission and European Council use the Draft Budgetary Plan to assess whether the Netherlands is compliant with the requirements of the Stability and Growth Pact (SGP), which contains the European budgetary rules. Due to the exceptional crisis caused by COVID-19, the general escape clause has been activated, allowing Member States to temporarily deviate from their normal obligations under the European budgetary framework, so that they can respond appropriately to the crisis.

In three different ways, the government wants to be a stabilising factor in this complicated and unpredictable time. Firstly, the government is spending a great deal of money to preserve jobs and support incomes, to help employers adapt and to limit long-term economic damage. In addition, it maintains arrangements made in the coalition agreement and in previous years, such as additional investment in education, security and sustainability. The government is also taking steps to make the Netherlands less vulnerable to suffering economic blows in the long term.

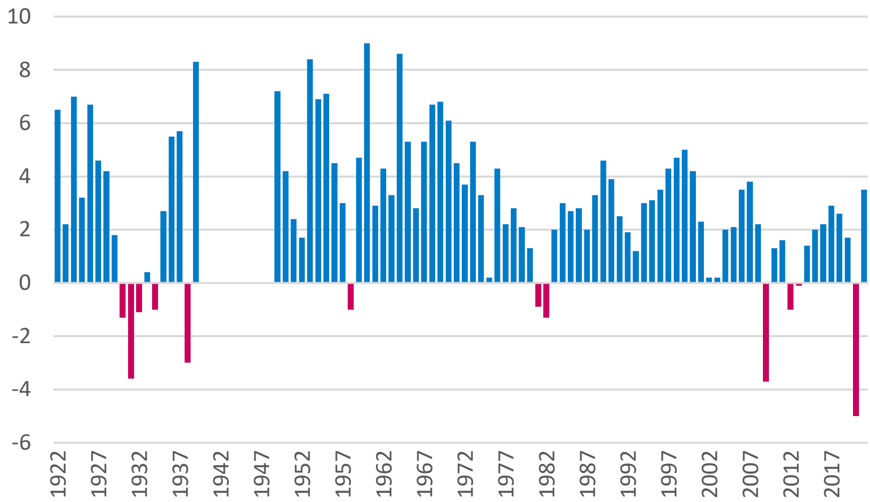
The economic and budgetary prospects are based on the Macroeconomic Outlook (MEV) and Medium-term forecast (MLT) of the Netherlands Bureau for Economic Policy Analysis (CPB) and the 2021 Budget Memorandum (Miljoenennota 2021). A more detailed explanation on the government's policy plans is available in the 2021 Budget Memorandum.

TABLE OF CONTENTS

CHAPTER 1:
MACROECONOMIC FORECAST

The Dutch economy is in the midst of a serious economic crisis. The economic situation this year has turned from an economic boom – with historically low unemployment – to a severe economic downturn. The coronavirus has an effect both nationally and internationally on supply and demand. Not only was the supply side hit by disruption and illness, but restrictions on social contact and temporary closures of sectors have also prevented full use of the economy's capacity. For example, work in the hospitality industry, the cultural sector and contact professions was forced to cease and parents suddenly became teachers for part of their day due to the schools closing. In addition, some sectors also had problems with the supply of goods from other parts of the world. A supply shock of this magnitude, when a large part of the economy's capacity cannot be used, also leads to a drop in demand: consumption and investments are down. Households and businesses consume and invest less because incomes are decreasing and because they have less confidence in the future, including households and businesses that are not active in sectors directly affected by the contact-restricting measures.

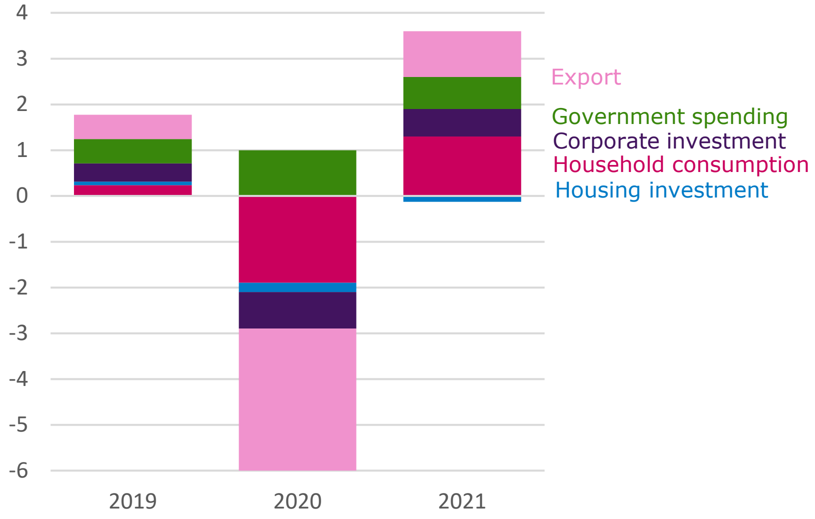
Figure 1.1. Real GDP growth



Economic development is extremely uncertain. Economic development depends to a certain extent on the confidence of households and entrepreneurs. It is not clear either how the virus is developing. By limiting the spread of the virus, it became possible to lift many of the contact restrictions, which would enable the economy to function better. In the summer, the number of infections increased again. If a new, large wave happens, it may be necessary to introduce new restrictions again, resulting in further economic loss. In addition, the possibility of source and contact tracing and the time required to achieve a vaccine have a strong impact on economic developments. Developments in the Netherlands – with an open, trade-oriented economy – also depend on the situation abroad and on world trade. There are also developments other than corona that could affect the Dutch economy, such as the negotiations between the European Union (EU) and the United Kingdom (UK) on a trade agreement after Brexit.

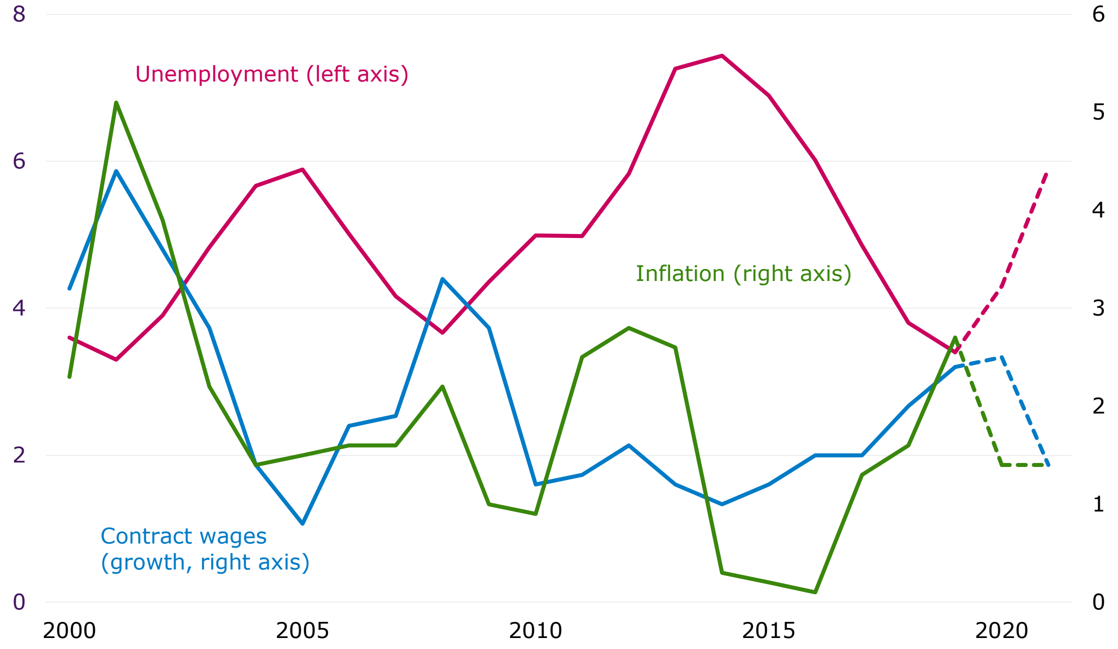
The Dutch economy is expected to shrink by 5% this year. This is an historic downturn, as shown in Figure 1.1. Even in 2009, when the Netherlands was affected by the financial crisis, GDP fell less sharply. In almost all areas, economic activity is declining in 2020. Households are spending 6% less than in 2019, investments are shrinking by 8% and exports by 5%. It is only public expenditure that is increasing. Economic development is extremely uncertain. However, it is expected that the economy will recover partially in 2021 and will grow by more than 3%. In the years after that, the economy will still experience losses caused by the current crisis. If the Netherlands is faced with a second wave of virus contaminations, the economic downturn will be worse. In that case, the Netherlands Bureau for Economic Policy Analysis (CPB) expects a drop in GDP of 6% instead of 5% in 2020 and a further 3% downturn in 2021.

Figure 1.2. Break down of GDP growth



As a result of a deteriorating economy, unemployment is rising sharply. In recent years, unemployment in the Netherlands has dropped continuously. At the beginning of 2020, unemployment was historically low, at less than 3% of the working population. However, the number of unemployed is expected to more than double in the near future. In 2021, unemployment in CPB's base forecast will be approximately 6%. This means that almost 550,000 people are unemployed, which is about 230,000 more than in 2019. In the event of a second wave, unemployment could even rise to more than 8%, which is higher than during the financial crisis. The crisis is also affecting wage development and inflation. In 2020, contract wages (negotiated in collective bargaining agreements) will still increase by about 2.5%. But wages are likely to increase to a far more limited degree in the coming years. On the other hand, consumer prices are also increasing slightly less in 2020 and 2021 than in the past period.

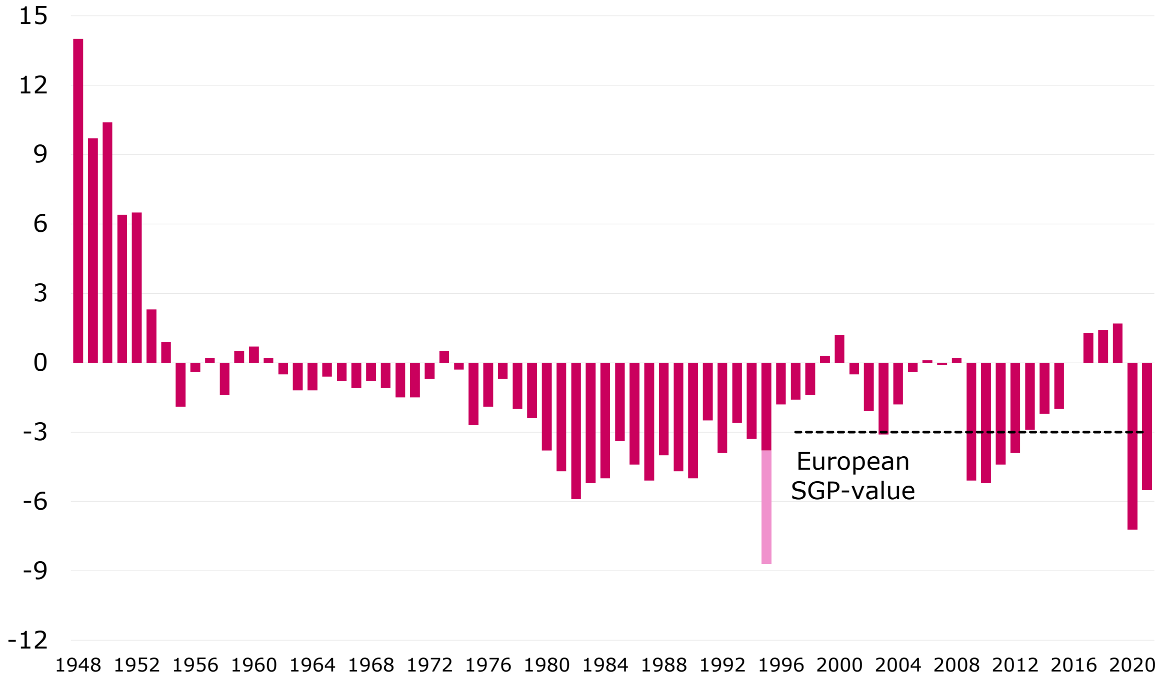
Figure 1.3. Unemployment, inflation and wages



CHAPTER 2:
BUDGETARY TARGETS

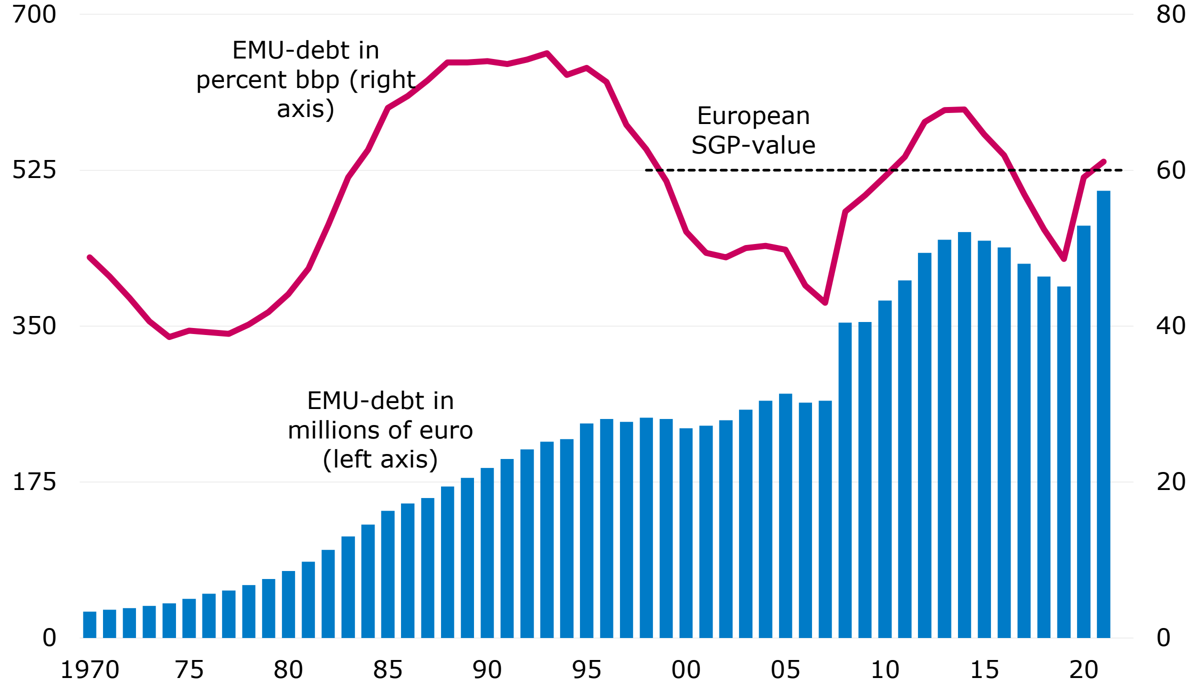
The consequences of the corona crisis lead to an historically large budget deficit and uncertainty for public finances. In 2020, the government balance is expected to result in a deficit of -7.2% of GDP. The balance has not faced such a drastic deterioration since the Second World War (see Figure 2.1). In 2021, the balance is also expected to remain markedly negative at -5.5% of GDP. Within the framework of the trend-based fiscal policy, tax revenues and expenditure on unemployment and social assistance benefits are allowed to develop in tandem with the economy. This means lower tax revenues and higher expenditure on unemployment and social assistance benefits due to the crisis result in a deterioration of the balance. The emergency measures taken by the government come on top of this. These add up to some EUR 35 billion in 2020 and explain most of the budget deficit. The uncertainty surrounding these figures is considerably greater than in normal times.

Figure 2.1. Government balance development in % of GDP



Government debt is rising sharply. Debt increases from 49% of GDP in 2019 to 59% of GDP in 2020. In addition to the budget deficit, this increase is caused by the tax deferral measures. The EUR 12.2 billion in deferred taxes does not affect the government balance but does lead to a higher debt in 2020. Additionally, the debt ratio increases as a result of the denominator effect: as GDP decreases, the debt as a percentage of GDP is higher. Although there is still a significant budget deficit in 2021, debt will only rise further to a limited extent, to 61% of GDP. This is due to the estimated growth (denominator effect) and the fact that most of the deferred taxes will be received in 2021.

Figure 2.2 Government debt in billions of euro (blue) and % of GDP (pink)



The European budgetary rules leave room for this exceptional situation. The European Commission's spring forecast in May was based on an average budget deficit of 8.5% of GDP in the eurozone. The European Commission has – as agreed by Member States – activated the general escape clause in the European budgetary rules. This means that Member States may temporarily deviate from the regular requirements for development of the structural budget balance. In the autumn, the budgetary situation in the Member States will be reviewed based on the European Commission's autumn forecast.

In the Netherlands, the fiscal policy of recent years has created the fiscal space to cope with the shock to public finances. In recent years, the economy has been running at full speed, resulting in budget surpluses. Under the system of trend-based fiscal policy, the level of expenditure is largely fixed for the whole cabinet period. This also applies for the policy-based development of revenues. So, in principle, windfalls in the general government balance do not lead to additional budget for government expenditure, but rather ensure an accelerated accrual of buffers. As a result, the debt decreased faster than was expected in the Coalition Agreement and fiscal space was created for lesser times. By making use of this space to support the economy now, the government contributes to stability and continuity. Although the increase in debt due to the corona crisis is large from a historic perspective, it does not directly lead to a level that is historically unusual or harmful to the economy. In part due to the Netherlands' good credit rating, the extra billions could even be borrowed at a negative interest rate. However, the current negative interest rate does not mean that increasing the debt is risk-free. After all, interest rates may rise again. The crisis illustrates that shocks can occur from an unexpected source and can quickly lead to high costs for the government. It is therefore important to ensure that the budget can also withstand a future crisis.

After 2021, the budget is expected to improve again, but this depends on the economic recovery. The most recent estimate by the Netherlands Bureau for Economic Policy Analysis (CPB) shows a gradual improvement of the economic environment after 2020. This leads to higher tax revenues and lower unemployment benefit expenditure. The effect of the temporary emergency measures is also reducing. Hence, the deficit is expected to fall below 3% of GDP by 2023. However, there is great uncertainty here. The medium-term forecast also has an unfavourable scenario, in which a second wave of the coronavirus breaks out. In this so-called 'deeper recession scenario' there is also a downturn in 2021, and economic recovery takes longer. If the crisis lasts longer, expenditure and revenue could remain out of sync even more. Debt may then rise higher than is currently anticipated. This is a risk to public finances.

Figure 2.3 General government budget balance, base forecast and deeper recession scenario

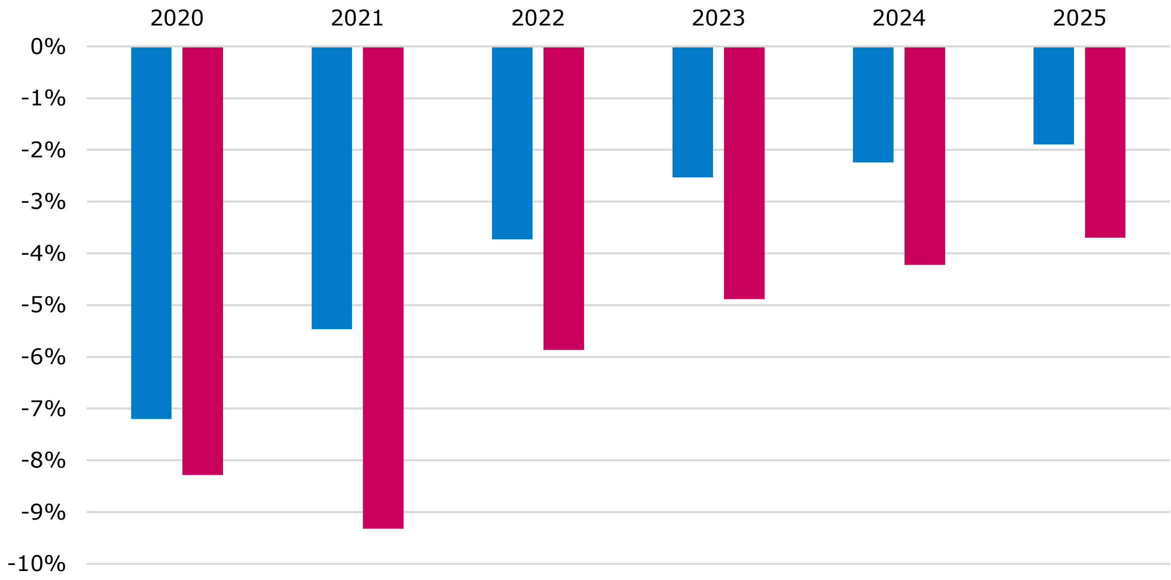


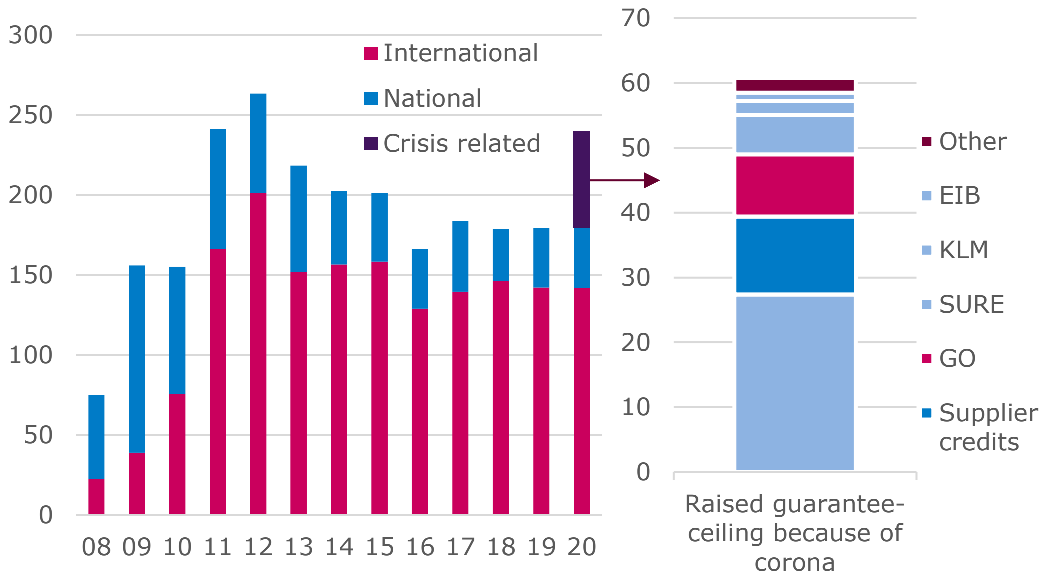
Table 2.1 Structural government balance

in % of GDP	**2019**	**2020**	**2021**
Actual general government balance	1,7	-7,2	-5,5
Cyclical component	-1,1	2,8	1,4
Extraordinary measures	-0,2	0,0	0,0
Structural government balance	**0,5**	**-4,4**	**-4,1**

Guarantees are an effective crisis instrument and contribute to economic recovery by removing uncertainty. The government is able to bear risks that the market cannot take on. Removing risks ensures that financiers have the confidence to invest and keep lending. This confidence effect is particularly strong during an economic crisis. The government has therefore deliberately chosen to extend existing guarantee schemes and to introduce new ones. For example, a number of existing schemes for corporate financing have been expanded and made more flexible. In addition, the government guarantees the financial risks arising from the joint purchase of medicinal and medical resources related to the treatment of COVID-19. The Netherlands has also entered into international guarantee obligations to combat the crisis.

However, guarantees are not free. When the guarantee is invoked, the government must pay the bill. Due to corona-related guarantees, the total outstanding risk of guarantees and indirect guarantees increased by more than EUR 60 billion to around 68% of GDP. In addition, since the corona crisis, the government has issued loans for more than EUR 1.8 billion. By relinquishing some of the regular conditions for corporate financing schemes, the expected losses on these schemes have increased. For example, the requested premium is not cost-covering for the expected losses in all cases. Existing and new guarantees are therefore a considerable risk to the government budget. The government can take these additional risks because the outstanding risk was decreased in previous years.

Figure 2.4 Development of outstanding risk guarantees (left) and breakdown of corona-related guarantees (right) in billions of euro



According to the CPB's latest estimate, there is a sustainability gap. Public finances are sustainable if future generations can make use of the same (social) benefits as we do today, without having to increase taxes. Under the current circumstances, it is not sensible to make budget cuts but the sustainability gap means that in the long term, it will be necessary to increase taxes or reduce expenditure, to prevent debt from continuing to rise. The balance is based on assumptions about the (very) long term and is therefore somewhat clouded by uncertainty. In this cabinet period, the sustainability balance has reversed from a small surplus before the Coalition Agreement to a deficit of around 3% of GDP now. This deterioration is mainly due to the deterioration in public finances in the coming cabinet period, and also the fact that expenditure in long-term healthcare is rising faster than was previously expected. The latter leads to a deterioration in sustainability due to the increasing demand for care over the next few decades as a result of population ageing. In addition, additional spending resulting from the Coalition Agreement and the reduced rate of increase in the statutory retirement age (AOW) will lead to a structural increase in expenditure. Temporary measures, such as the current emergency packages only have an effect on the sustainability balance through the higher interest expenses on a higher debt.

CHAPTER 3:
EXPENDITURE AND REVENUE PROJECTIONS AT AN UNCHANGED POLICIES SCENARIO

Table 3.1 General government expenditure and revenue targets, broken down by main components.

in % of GDP		**2020**	**2021**
General government (S.13)	ESA Code		
1. Total revenue at unchanged policy	TR	42,6	43,0
Of which:			
1.1. Taxes on production and imports	D.2	11,7	12,2
1.2. Current taxes on income, wealth, etc.	D.5	11,6	12,5
1.3. Capital taxes	D.91	0,3	0,3
1.4. Social contributions	D.61	14,4	13,7
1.5. Property income	D.4	0,7	0,7
1.6. Other		3,8	3,6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38,0	38,7
2. Total expenditure at unchanged policy	TE	50,2	48,1
Of which:			
2.1. Compensation of employees	D.1	9,0	8,9
2.2. Intermediate consumption	P.2	7,2	6,5
2.3. Social payments	D.62	21,9	22,2
Of which: Unemployment benefits	D.632	1,5	1,7
2.4. Interest expenditure	D.41	0,6	0,4
2.5. Subsidies	D.3	5,4	2,8
2.6. Gross fixed capital formation	P.51	3,7	3,9
2.7. Capital transfers	D.9	0,8	1,7
2.8. Other		1,7	1,7

CHAPTER 4:
EXPENDITURE AND REVENUE TARGETS

Table 4.1 General government expenditure and revenue targets, broken down by main components.

in % of GDP		**2020**	**2021**
General government (S.13)	ESA Code		
1. Total revenue at unchanged policy	TR	42,6	43,0
Of which:			
1.1. Taxes on production and imports	D.2	11,7	12,2
1.2. Current taxes on income, wealth, etc.	D.5	11,6	12,5
1.3. Capital taxes	D.91	0,3	0,3
1.4. Social contributions	D.61	14,4	13,7
1.5. Property income	D.4	0,7	0,7
1.6. Other		3,8	3,6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38,0	38,7
2. Total expenditure at unchanged policy	TE	50,2	48,1
Of which:			
2.1. Compensation of employees	D.1	9,0	8,9
2.2. Intermediate consumption	P.2	7,2	6,5
2.3. Social payments	D.62	21,9	22,2
Of which: Unemployment benefits	D.632	1,5	1,7
2.4. Interest expenditure	D.41	0,6	0,4
2.5. Subsidies	D.3	5,4	2,8
2.6. Gross fixed capital formation	P.51	3,7	3,9
2.7. Capital transfers	D.9	0,8	1,7
2.8. Other		1,7	1,7

CHAPTER 5:
DISCRETIONARY BUDGETARY DEVELOPMENTS

The consequences of the corona crisis lead to an historically large budget deficit and uncertainty for public finances. In 2020, the expenditure ratio increases to 46% of GDP, and expenditure in % of GDP is expected to decrease slightly in 2021. The increase in expenditure is mainly due to exceptional emergency measures. The emergency measures and additional investments do not come at the expense of regular expenditure on, for example, care, education and safety. Unemployment expenditure is also increasing, while income is decreasing due to the effects of the corona crisis and tax deferral.

Corona crisis emergency measures

The Netherlands has taken considerable emergency measures to support households and businesses during the corona crisis. These measures were necessary to maintain as many jobs as possible and to help households and businesses to get through this period. The second emergency package which runs until October is, like the first package, aimed at preserving jobs. In addition, the second package provides more room for necessary adaptations within the economy, for example by changes in the Temporary Emergency Bridging Measure to Preserve Employment (the wage cost subsidy) and additional measures aimed at job training. Despite these support measures, the government cannot prevent the economic situation from having severe consequences for some households and entrepreneurs, such as dismissal or bankruptcy.

The total sum of the announced support measures is more than EUR 62 billion in 2020. This includes expenditure measures, tax deferral and tax measures. The expenditure measures amount to approximately EUR 46 billion (over several years). The most important of these are the Temporary Emergency Bridging Measure to Preserve Employment (NOW), the Temporary Support Scheme for Self-Employed Persons (TOZO), and the Compensation for Entrepreneurs in Affected Sectors COVID-19 / Reimbursement Fixed Costs (TOGS/TVL). Until the end of July, 40% of SMEs made use of the NOW, TOGS and/or deferred tax payments. Under the first NOW scheme, applications from more than 139,000 employers have been approved, with a reach of 2.65 million people. Under the second NOW scheme, which runs until 1 October, usage has decreased, with 63,000 granted applications until the beginning of September. An estimated 374,000 self-employed workers made use of the first TOZO scheme. For the second TOZO scheme, the number of applications is estimated at 103,000 so far.

Extensive measures have also been taken on the revenue side. For instance, 128,000 companies have made use of the possibility of deferring payment of taxes and social security contributions. This has led to approximately EUR 12 billion in tax deferral; the bulk of which will be collected later. In addition, the emergency packages contain tax measures to the extent of EUR 4.4 billion. Budget-wise, the creation of a corona tax reserve of EUR 3 billion within the corporation tax is the largest part of the tax measures.

From October onwards, the support package will continue in an adapted form, taking into account the situation that we find ourselves in. The government believes it is important to provide clarity for citizens and businesses for a long time, and to allow businesses and entrepreneurs to make adjustments to their business model where necessary. The new support package aims to support workers and businesses in this necessary adjustment. In the new package, the NOW, TVL and TOZO schemes will be continued for nine months. Changes are planned to continue focusing the measures on citizens and companies where support is the best solution. In exceptional cases, essential companies that have been hit hard by the corona crisis can apply for individual support, as previously agreed. This support is subject to strict conditions and is assessed in the context of the Assessment framework for support applications for individual companies. This will take into account the social importance and viability of a company, and the conditions for granting support.

An exceptionally large set of accompanying policies supports citizens and businesses that adapt to the new economic circumstances. Among other things, the government invests in training and retraining as well as other measures to support the transition to other work, and continues to support vulnerable groups (e.g. people with disabilities). This will, amongst others, be provided by regional mobility teams, who ideally start providing services before someone becomes unemployed. Training and retraining courses could be part of this support. Timely support is important to avoid (long-term) unemployment as much as possible. The government is additionally committed to combating poverty and problematic debts. This is an important precondition to ensure that people can participate in our society and to keep people employed or to help people find employment. Early assistance and support are important, otherwise there is a risk of vulnerabilities piling up. To support people with problematic debts, the government is going to set up a guarantee fund to settle problematic debts quickly.

The adapted support measures and the budget for 2021 provide clarity for a longer period. The new measures announced will be effective from 1 October 2020 and will be valid until 1 July 2021. This period, which is longer than for the previous emergency packages, should lead to greater calm and clarity for households and businesses. The rest of the budget, such as additional investments and other measures, is also aimed at helping the economy get through this situation. Despite these measures, for many Dutch citizens these remain uncertain times, and the recession will have far-reaching consequences. The emergency measures and additional investments do not come at the expense of regular expenditure on, for example, care, education and safety. The expenditure and emergency measures are discussed below.

Expenditure

- As a result of the corona crisis and resultant unemployment, the budget for the Ministry of Social Affairs and Employment (SZW) cumulatively shows a setback after processing information from the Employee Insurance Agency (UWV) and the Tax and Customs Administration, as well as the CPB forecasts. The Ministry of Social Affairs and Employment reduces this setback by resolving some of it within the SZW budget. The remainder will be generally compensated.
- The global crisis is so far-reaching that the government chooses to make an additional one-off EUR 500 million available from the general resources to combat the corona crisis in the most vulnerable countries. Combined with a carryover from later years, the budget for foreign aid will stabilise in 2020 and 2021.
- A national scale-up facility will be established, using European funds and contributions from private investors. Options to better support start-ups and scale-ups on a local level will be worked out. Additionally for the corporate sector, European resources are used for co-funding national schemes and municipalities can develop ways of restructuring industrial sites and shopping centres, using a government contribution.
- The government will introduce an additional package of measures that will further reduce nitrogen emissions and restore nature. An amount of more than EUR 5 billion has been reserved for this in the period up to 2030. In addition to the package of measures, EUR 100 million per year is available for measures aimed at emission sources in the housing construction package up to 2030.
- In 2021, a total of EUR 295 million will be available for housing construction. This amount partially consists of a one-off intensification of EUR 95 million and a series of EUR 100 million annually up to 2030, related to the Nitrogen Act. In addition, existing plans for the housing construction impulse will be accelerated.
- The government is accelerating various measures of the Ministry of Infrastructure and Water Management (IenW) and the Ministry of the Interior and Kingdom Relations (BZK) to the value of approximately EUR 1.5 billion in the areas of, for example, railway and waterway maintenance, the safety of (cycling route) infrastructure, an acceleration of the housing construction impulse, and sustainability of government real estate. Furthermore, at an earlier stage the government brought forward a EUR 465 million investment by the Central Government Real Estate Agency and Defence. The total amount of investments

brought forward is about EUR 2 billion.

- In February 2020, the government decided to speed up the phasing out of gas extraction in Groningen. The measures taken make it possible to reduce gas production in Groningen to zero in an average year as from mid-2022.
- EUR 150 million will be made available structurally to combat subversive crime which has negative consequences for society and the economy. This measure is partly covered by the budget for the Ministry of Justice and Security and by a structural contribution of EUR 87 million from general resources.
- In the coming years, greater capacity needs are expected within the judicial chain, particularly in the prisons system, forensic care, forensic psychiatric treatment and youth custodial institutions. The challenges in the asylum system are also immense. The government is making funds available for this purpose and will increase the budget of the Ministry of Justice and Security by EUR 316 million next year and structurally by EUR 356 million.
- The government has decided to make resources available to repair as much damage as possible caused by an unreasonably stringent allowances system. This concerns EUR 390 million to compensate parents and EUR 110 million for the associated implementation costs. Moreover, structural resources are being allocated to improve implementation and for a disentanglement of Taxation and Allowances at the Tax and Customs Administration.
- In tackling the shortage of teachers, an amount of EUR 32 million will structurally be made available. The number of pupils and students is higher than previously assumed in the budget of the Ministry of Education, Culture and Science (OCW), mainly because of the new population forecast by Statistics Netherlands. There are also setbacks in the additional funding for newcomers and the education cost estimate. To achieve this, the budget of the Ministry of Education, Culture and Science (OCW) will be increased incrementally up to an amount of EUR 482 million in 2025 and approximately EUR 450 million in structural terms. In addition, approximately EUR 60 million is structurally covered in the OCW budget.
- As of 2021, the government will raise the child-related allowance by EUR 150 million. To achieve this, the amount that parents receive will increase from the third child, thereby reducing the risk of poverty among children in large families. A reserve of EUR 150 million – previously agreed in the 2020 Budget Memorandum – will be used for this.
- The national government and the public authorities of Zeeland have concluded an administrative agreement on a compensation package for cancellation of moving the marine barracks to Vlissingen. For this purpose, the government will cumulatively make a total of EUR 652 million available for the compensation package up to 2030, and EUR 66 million structurally thereafter. Aside from specific coverage, the government will provide general coverage of EUR 33 million in 2025 and EUR 32 million in structural terms.
- The government is allocating EUR 130 million in structural terms to make employment in the care sector more attractive. This is done by reducing work pressure by increasing the number of lateral-entry personnel and reducing administrative burdens, by providing more career prospects, by improving contracts, and by enhancing the autonomy of professionals.
- For the period up to 2021, the government has met the needs of municipalities with additional budget to compensate for extra growth in youth care, in combination with agreements to achieve the transition and transformation goals of realising the decentralisation of youth services. This period will be extended by making an additional one-off sum of EUR 300 million available for the year 2022.
- This additional expenditure is partly covered by lower than expected interest expenditure. For 2020 and 2021, an underspending expectation has also been included. This amounts to EUR 250 million and EUR 950 million respectively and must be enabled by windfalls that occur during the year. This is a budget risk.
- The government has set up a Growth Fund for public investments in the earning capacity of the economy. For this purpose, the government will make a sum of EUR 20 billion available for the next five years. For actual cash expenditure, an incremental series has been included in the long-term budget. A further explanation is provided below the table.

Table 5.1 Key decision-making points on the expenditures side

In millions of euros	2020	2021	2022	2023	2024	2025
National Growth Fund	0	1000	2000	3000	4000	4000
Urgenda	63	236	0	0	0	0
Nitrogen	47	733	938	636	404	534
Housing market package	0	195	100	100	100	100
Investment pace	0	279	382	537	67	58
Businesses package	0	388	89	65	46	9
Accelerated scale down of gas extraction	20	140	320	410	310	270
Undermining	29	87	87	87	87	87
Judicial and asylum chain capacity	256	316	393	382	358	356
Allowances (compensation for parents)	165	235	100	0	0	0
Allowances (restore implementation)	80	131	149	140	131	130
Tackling teacher shortage	29	32	32	32	32	32
OCW setback	– 87	234	254	336	405	482
Child-related budget	0	150	150	150	150	150
SZW	– 173	172	305	273	205	130
HGIS	540	272	152	– 46	– 164	– 254
Zeeland compensation	0	1	3	3	3	33
Measures to work in care sector	0	20	80	130	130	130
Youth care	0	0	300	0	0	0

Investments in earning capacity: National Growth Fund

The government has set up a National Growth Fund for public investment in the earning capacity of the Netherlands. This Growth Fund is not aimed at all the needs and preferences of this point in time, but at Dutch prosperity in the future. There are opportunities to increase productivity and hence the earning capacity, especially in knowledge development, research and development (R&D), innovation as well as infrastructure. Targeted investments in our earning capacity are a means of meeting social challenges and for enhancing our prosperity in a broad sense.

The fund will be placed at an appropriate distance from politics. An independent committee will assess the investment proposals on the added value for earning capacity and will issue a critical and directive recommendation. This recommendation will be published and must ensure that the resources in the fund are spent efficiently and effectively.

In the short term, there are already opportunities for investing in the Netherlands' earning capacity. In order to capitalize on this, the government is committed to making proposals early next year for a few sound projects that contribute to the earning capacity. To be able to afford sound investment proposals, the government will allocate EUR 20 billion for the next five years, i.e. room for outstanding liabilities of EUR 4 billion per year. As the added value of projects is leading for the earning capacity, resources can be transferred from one year to another.

Revenue

In 2021, the government receives EUR 284.4 billion in taxes and social security contributions. Due to the exceptional economic situation, it has been decided to give entrepreneurs the possibility of deferring taxes and social security contributions. Part of the 2020 liabilities will be paid in 2021 but will not be visible in the budget balance in 2021, because it has been allocated to the budget balance in 2020. Current estimates of deferred taxes amount to EUR 12 billion.

Table 5.2 Taxes and social security revenues 2019-2021

In billions of euro	2019	2020	2021
Taxes and national social insurance contributions on general government-based amounts	234.4	213.6	212.8
of which taxes	194.9	173.9	175.9
of which national social insurance contributions	39.4	39.7	36.9
Employee insurance scheme contributions	68.3	68.8	71.7
Total	**302.7**	**282.4**	**284.4**
Change		– 20.3	2.0
of which endogenous growth		– 10.5	– 3.7
of which policy measures		– 9.8	5.7
Endogenous change (in %)		– 3,5%	– 1,3%
Value development GDP (in %)		– 3,5%	4.8%

In addition to tax deferral, revenues are expected to decline in 2020 by EUR 20 billion as a result of the economic downturn. In 2020, the economy is expected to decline by 3.5% (nominal), with tax and social security revenues, in relative terms, declining even more.

Expenditure

- In 2020 and 2021, the policy-related tax burden within the revenue framework will drop by almost EUR 5 billion. These tax-relief measures are meant entirely for households, in particular through a reduction of taxation on labour. The government has taken additonal tax measures to the extent of EUR 4.4 billion because of the corona crisis. New policy, for the most part, consists of tax measures that are a result of the emergency packages for jobs and the economy.
- Revenue from wage and income taxes remains virtually the same in comparison to 2019. In 2021, the government will also reduce the tax burden on labour, which leads to EUR 1.1 billion less revenue from wage and income taxes. This makes working more worthwhile and it improves the purchasing power of working households. It also increases labour market participation.
- Due to an estimated increase in household consumption in 2021, VAT revenue increases because consumers delay making major purchases in times of economic uncertainty. The level of consumer spending in 2019 will not be achieved in 2021.
- The corporation tax (vpb) will decrease in 2020 and 2021. In 2019, cash revenue of the corporation tax amounted to approximately EUR 26 billion. For 2020, it is estimated that this will reduce to around EUR 17 billion, to drop even further to some EUR 13 billion by 2021. The possibility to offset losses from a given year against profits from previous or subsequent years, increases the sensitivity to cyclical movements of the corporation tax. The possibility of creating a corona tax reserve strengthens the sensitivity to cyclical movements of the corporation tax. The creation of such a reserve makes it possible for companies to make the loss in 2020 incumbent on the profit of the year 2019. Furthermore in 2021, the lower corporation tax rate will be reduced from 16.5% to 15% and the tax base will be broadened.
- As of 2021, the government will introduce a conditional withholding tax on interest and royalties. These contribute to the government's policy to prevent tax avoidance via the Netherlands.
- Agreements have been made to further sustainability witihin the tax system. Aside from pursuing European agreements on aviation pricing, the government is also introducing a

flight tax. For the industry, the government is introducing a carbon emissions levy for heavy polluters, with a threshold emission level that progressively gets smaller. As a result, the levy only applies to excessive emissions by industry, to introduce a sustainability incentive.

CHAPTER 6:
POSSIBLE LINKS BETWEEN THE DRAFT BUDGETARY PLAN AND THE TARGETS SET BY THE UNION'S STRATEGY FOR GROWTH AND JOBS AND COUNTRY-SPECIFIC RECOMMENDATIONS

Country-specific recommendations (CSRs)
Deviating from the usual reporting, this Draft Budget discusses both the current country-specific recommendations and the recommendations of the previous year. After all, these relate to structural challenges for the Dutch economy, and remain relevant during the current crisis and the recovery phase.

CSR number	Measures (actual progress/new in respect of 2020 National Reform Programme, NRP)
2020 CSRs	
CSR 1: In accordance with the general escape clause, take all necessary measures to effectively tackle the pandemic, to stimulate the economy and to support its subsequent recovery. If economic circumstances permit, conduct budgetary policy aimed at establishing prudent budgetary situations in the medium term and ensuring the sustainability of debt, while increasing investment.	See Chapter 5 for a description of the emergency measures and National Growth Fund. See Chapter 2 for a description of the budgetary policy.
Strengthen the resilience of the healthcare system, including addressing existing health worker shortages and speeding up the deployment of relevant electronic healthcare tools.	To ensure that there is adequately equipped and satisfied personnel in the care and welfare sectors, various structural and complementary measures are taken by the Ministry of Health, Welfare and Sport (VWS). Every year, financial room is made available for wage development in line with the private sector for healthcare workers (through the government contribution to labour cost development). Employers are supported financially in training new employees with the SectorplanPlus training incentive, and employees can get career guidance through 'Sterk in je werk Plus' [Strong in employment Plus]. There is also a wide range of support available through 'Actie Leer Netwerk' [Learning Network Action] and the VWS regional team. The quality of practicing an individual profession is guaranteed and promoted through the Individual Healthcare Professionals Act (*Wet BIG*). By adopting a cautious approach to regulation and making the use of care providers more flexible by means of a rearrangement of tasks, an open labour market is created where care providers can be deployed to the full. Access to care requires adequate and well-trained healthcare

	personnel. Financing for training places for medical follow-up training courses in the care sector is therefore ensured through the ‘availability contribution’. This is done based on recommendations by the Capacity body. In 2018, the action programme ‘Werken in de Zorg’ [Working in the Care sector] was launched. This is a broad approach to let more people choose to work in the care and welfare sector and to provide inspiring and challenging education that ties in well with practice. In addition, the programme's focus is on maintaining current care personnel and encouraging working differently. Aside from a rearrangement of tasks and job-carving, this also means more attention to good employment practices and the deployment of smart innovations and labour-saving technology. The emphasis of the approach to the action programme ‘Werk in de Zorg’ lies in the region. Data-driven monitoring ensures that it is clear to what extent the actions carried out in the region help to tackle the regional challenge effectively[1]. To alleviate labour market shortages in the care sector as a result of the COVID-19 outbreak, various additional instruments have been deployed and trade organisation initiatives have been supported. These include launching the www.extrahandenvoordezorg.nl platform and introducing *Nationale Zorgklas* (National Healthcare training classroom); an extension of the SectorplanPlus subsidy scheme and the provision of mental support for healthcare professionals through ‘Sterk in je werk’ [Strong in employment] (www.sterkinjewerk.nl/extra-coaching). A temporary measure has also been taken which – subject to conditions – will allow former nurses and doctors to be deployed autonomously again under certain conditions in the care sector in this time of crisis. Due to the COVID-19 pandemic, use of digital applications has also increased, for example, for providing care remotely and for self-monitoring. E-health is also crucial for catching up on postponed care. The government encourages speeding up the application of e-health and, in so doing, embraces the principle ‘digital where possible and desirable’. E-health also enables a more efficient organisation of care. As a result of COVID-19, many healthcare professionals have worked extra hard. There is a great deal of support to appreciate this financially too. The government therefore decided in June this year (2020), to pay a one-off net bonus of EUR 1,000 to healthcare professionals who have provided an exceptional performance over the past period. COVID-19 will continue to demand a great deal from healthcare professionals. With that in mind, the government has decided to provide additional budget for 2021, so that a net bonus of EUR 500 can be awarded in 2021 to the healthcare professionals whose special efforts are also required in the forthcoming period because of the COVID-19 outbreak.

[1] AZW StatLine via https://azwstatline.cbs.nl/#/AZW/nl/ and the AZW Dashboard https://dash-boards.cbs.nl/v1/AZWDashboard/ of Statistics Netherlands.

	The Action Programme 'Werken in de Zorg' will end in 2021, including the resources available to it. In view of the task we are facing, the government wants to ensure that a number of large and impactful instruments in the Action Programme 'Werken in de Zorg' can be continued and extended. For this purpose, additional resources will be provided for the forthcoming period. For 2021, this is an additional amount of EUR 20 million. To be able to continue and intensify activities after next year too, the government will make EUR 80 million available in 2022 and EUR 130 million structurally as from 2023. The focus in the forthcoming period is on - more career prospects for employees, - reducing the working pressure, which includes improving contracts (better timetable scheduling, expanding small contracts) and - better management and autonomy (control)
CSR 2: Reduce the impact on employment and the social effects of the crisis and promote adequate social protection for self-employed workers.	Due to the coronavirus, the government has offered three packages of measures to protect jobs and incomes. The measures are mainly aimed at job preservation (NOW) and at providing income support to self-employed persons (TOZO) and flex workers (TOFA). In addition, there is additional support for sectors that are heavily affected by contact restrictions. A package of EUR 1.4 billion has also been provided for social partners, municipalities, implementing organisations and schools to use on good counselling from unemployment to employment, for training, retraining and development, for combating poverty and problematic debt, tackling youth unemployment and for protecting vulnerable groups in the labour market. The letters to parliament concerning the two emergency packages (March-May 2020 and June-September 2020) as well as the support and recovery package (October 2020-June 2021) can be consulted at the following links: https://www.rijksoverheid.nl/documenten/kamerstukken/2020/03/17/kamerbrief-over-noodpakket-banen-en-economie https://www.rijksoverheid.nl/documenten/kamerstukken/2020/05/20/kamerbrief-noodpakket-2.0 https://www.rijksoverheid.nl/documenten/kamerstukken/2020/08/28/kamerbrief-steun--en-herstelpakket-voor-ondernemers-en-werkenden
CSR 3: Bring forward maturing public investment projects and encourage private investment to promote economic recovery. Focus investments on the green and digital transition, particularly on the development of digital skills, sustainable infrastructure, the clean and efficient generation and	The mission-driven policy for Top Sectors and Innovation are still in place. Despite the COVID-19 crisis, most projects have continued. However, the use of public and private funds will be lower than envisaged. Partly because of this, it is important to continue to strive for the recommendation published in previous years, namely, to invest more in research and innovation, so that we can achieve the objective of 2.5% of GDP for research and innovation investment.

usage of energy, and mission-driven research and innovation.	Both public investment and attracting private investment are important in this respect. In response to the European Commission's recommendations within the context of the European Semester, the government endorses that these additional thematic investments in research and innovation are complementary to investments in free and impartial research and innovation. A proper balance in the system between fundamental, free research and more thematic research is important in this respect. The mission-driven policy for Top Sectors and Innovation aims to attract private investment by companies. The Knowledge and Innovation Covenant, KIC (2019) states a total of 5 billion in investments, of which a significant proportion by the private sector. Additionally, the Growth Fund has recently been initiated. This fund, together with the corporate sector, makes additional investments that strengthen the Dutch economy's growth capacity. The Weckhuysen Committee has proposed the concept of 'Rolling Grants' for the first flow of funds. These are scholarships that researchers can apply for at any time in their career. The concept of 'Rolling Grants' is currently being elaborated by the Royal Netherlands Academy of Arts and Sciences (KNAW). In the past period, the Netherlands has invested substantially in fundamental scientific infrastructure: EUR 30 million in the Dutch participation of the Square Kilometre Array (SKA), EUR 1 million in the ET-pathfinder, and an additional investment of EUR 30 million in the national roadmap for large-scale scientific research infrastructure. In addition, the Netherlands invested EUR 20 million in digital infrastructure, especially earmarked for the supercomputer. A strong knowledge base is necessary to cope with future (unforeseen) challenges. Investment in fundamental research is therefore also of essential importance for the resilience and economic recovery. As from 2020, EUR 70 million will be available structurally for universities, intended for fundamental research, of which EUR 60 million will be allocated to science and technology, and EUR 10 million to social sciences and humanities. As from 2020, EUR 130 million will be available per year for the National Science Agenda (NWA). Here, broad and interdisciplinary research consortia work on scientific and social breakthroughs, in an active collaboration with the knowledge chain. Thematic research is also being programmed together with the ministries, where a large joint research approach by the National Science Agenda is taking place on the subject of artificial intelligence in 2020. In 2021, the government, in conjunction with the mobility sector, public authorities and civil society organisations, will continue to implement the Climate Agreement. The aim is to ensure that all new passenger vehicles will be emission-free by 2030. The purchase subsidy for second-hand and new electric vehicles for private individuals is being continued (total extent 2020–2025: EUR 252 million). In Mid-2021, it will be examined whether the development of electric transport is on the envisaged development pathway. In doing so, the government is committed through innovation, financing, cooperation and regulation, to the deployment and accessibility of the necessary charging infrastructure, aspiring for a total of 1.8 million charging points by

CSR 4: Take steps to fully address the characteristics of the tax system which could make aggressive tax planning possible for outgoing payments in particular, especially implementing the measures adopted and ensuring their effectiveness. Ensure effective monitoring and enforcement of the framework for combating money laundering.	2030. Work is also being done on the responsible usage of alternatives to fossil fuels such as batteries and hydrogen and the smart use of additional economic opportunities. From 2025 onwards – by way of a gradual and careful process – we will be introducing zero-emission city logistics in 30 to 40 cities in the Netherlands. The government wants to vigorously continue in the campaign against tax evasion and tax avoidance. For example, the government has announced that it will take additional measures against dividend flows to low-tax jurisdictions as from 2024. In the spring of 2021, the government will submit a legislative proposal to the Dutch House of Representatives for this purpose. These measures are supplemental to the Withholding Tax Act 2021, which enters into force on 1 January 2021. Under the Withholding Tax Act 2021, the government introduces a withholding tax on interest and royalties to low-tax jurisdictions and in abuse situations. The purpose of this law is to prevent the Netherlands from operating as a gateway to low-tax jurisdictions. This also reduces the risk of shifting the Dutch tax base to these jurisdictions. Existing measures against tax avoidance are also being tightened, including a specific interest deduction restriction and the concurrence between the hybrid mismatch arrangements and certain interest deduction restrictions. Finally, the Netherlands supports initiatives to achieve a greater internationally coordinated approach to tax avoidance. For example, the Netherlands is actively contributing to the OECD and the Inclusive Framework project to resolve the challenges of digital development of the economy where profit taxation is concerned. However, legislation alone will not be the solution. The business community and tax consultants also play an essential role in this, based on their social responsibility. Development of a tax governance code further adds to this social responsibility. In the spring of 2021, the government will present a separate legislative proposal to amend the at arm's-length principle. The at arm's length principle means that individual companies trading with each other within a group of companies, also pay prices based on market conditions. This is particularly relevant in international situations. One group company that buys a particular service or product may deduct the market-based costs, while the other group company (which supplies a particular service or sells a certain product) takes the corresponding revenue into account. In this way, group companies achieve a market-based profit, which is included in the taxation in the country in which these companies are situated. The legislative proposal limits a downward adjustment of Dutch taxable profits on grounds of the 'at arm's length principle' if the price at an affiliated party in another country is not included or is included for a lower amount as revenue in the tax levy. The measure aims to combat tax avoidance which can take place by means of so-called informal capital structures. This measure enables the Netherlands to operate more in line internationally. This measure follows from one of the recommendations by the Advisory Committee on the taxation of multinationals.

2019 CSRs	
CSR 1: Reducing the debt bias for households and the distortions in the housing market, including aspects like supporting development of the private rental sector.	In 2019, EUR 2 billion was made available for the housing market. It is now clear that with the first EUR 290 million from the housing impulse, 51,000 additional homes are being realised. The reduction of levies on housing corporations for new-build housing can potentially yield 150,000 social rental homes over the next five years. It was recently announced that short-term housing development is being accelerated by bringing forward and increasing the resources of the housing impulse, tackling bottlenecks with municipalities and housing corporations and aiming for a greater commitment to transformations, from shops into homes for example. By using resources for tackling the nitrogen problem, speeding up decision-making at large-scale housing sites, conducting research into the possibilities of an active public space policy by the government, and having more concrete arrangements with municipalities and provinces about planning capacity and new-build housing, production is also increased for a longer term. The five housing deals – concluded by the Minister of the Interior and Kingdom Relations with the areas that have the direst need – explicitly pay attention to further development of the middle segment rental market. For mortgage interest tax relief, the government is adhering to the announced downward trajectory. Eventually, the maximum mortgage interest relief rate will be 37.05% in 2023. The scaling back of this tax deduction reduces the tax incentive of the measure and distortions in the housing market faster, which contributes to a more stable housing market with lower debts.
Ensuring that the second pillar of the pension system is more transparent, inter-generationally more equitable, and becomes more resilient to shocks.	Before the summer, the government reached further agreement with the social partners on the elaboration of the pension agreement and shaping of the pension contract. Solidarity remains an important component within the Dutch pension system. Pensions will move more directly with the development of the economy. Both increases as well as reductions will take place faster as a result. The following reforms have been agreed: 1. The current pension accruel system (with constant accrual rates) will be abolished, current participants will be compensated adequately in an intergenerational balanced way. The government contributes to this by temporarily providing additional fiscal space. All participants will be given an accrual that falls in line with the premiums contributed. 2. A new pension contract will be created based on the premiums contributed, with clear communication on accrued capital. 3. All pension contracts will be restricted to a uniform age-independent premium limit. The government wants to have a legal framework ready by the beginning of 2022. These arrangements lead to a future-proof system that is more transparent and personal and which is more consistent with developments in society and in the labour market. The letter containing details of the effect of the pension agreement can be consulted here:

	https://www.rijksoverheid.nl/documenten/kamerstukken/2020/07/06/uitwerking-pensioenakkoord
Implementing policy to increase disposable income for households, inter alia, by strengthening wage growth support conditions, taking the role of social partners into account.	Labour productivity growth potentially enables higher wages. The government is therefore pursuing policies to increase labour productivity, including through the National Growth Fund, lifelong development policies and the measures mentioned in the Letter to Parliament on Growth Strategy. On Budget Day 2020, the government also announced tax-relief measures to increase the disposable income of households.
Addressing the characteristics of the tax system that could encourage aggressive tax planning mainly through outgoing payments, especially through implementation of the announced measures.	See 2020 CSRs.
CSR 2: Reduce incentives for self-employed workers without personnel and encourage adequate social protection for self-employed workers and tackle bogus self-employment.	Together with the social partners, the government wants to prepare the labour market for new challenges, reduce segmentation in the labour market, and work towards a labour market that offers opportunities to everyone. The latest measures concerning the self-employed were announced in the fifth progress report on 'Working as a self-employed' dated 15 June 2020: https://www.rijksoverheid.nl/documenten/kamerstukken/2020/06/15/voortgangsbrief-werken-als-zelfstandige The 2021 budget includes an accelerated and further reduction of the self-employed tax deduction, to ensure more equal tax treatment between employees and self-employed, in line with recommendations by the Borstlap Committee. In concrete terms, this means that from 2021 onwards, the self-employed deduction will be scaled down in additional increments of EUR 110 to a level of EUR 3,240 in 2036. It has been decided not to develop new regulations relating to minimum rates and the self-employment declaration further, because of the administrative burden and absence of support among employers and workers. The web module for qualification of the employment relationship will be developed further via testing of the questionnaires. Before the end of the year, the Minister will present a proposal for development of an occupational disability insurance for self-employed persons and, based on the pension agreement, the possibilities for voluntary membership of self-employed workers to join the new pension scheme will be explored together with the social partners in the course of 2021. Finally, the current enforcement moratorium will expire on 1 January 2021. The government will take a decision in the autumn

	on a further extension of this moratorium.
Enhance lifelong learning and improve skills, especially for people on the edge of the labour market and for those who are inactive.	Through the support and recovery package, the government is committed to supporting and counselling reorientation in the labour market and to financing extra training and retraining. In the near future, the government and the social partners will be discussing how to implement these measures. It concerns funds for various training measures, including practical learning in senior secondary vocational education (MBO), inter-sectoral training, the education budget in the Unemployment benefits scheme, and reinforcement of basic skills.
CSR 3: Taking into account the medium-term budgetary targets, use budgetary and structural policies to support an upward trend in investment. Investment-related economic policy focuses on research and development, particularly in the private sector, on renewable energy, energy efficiency and strategies for reducing greenhouse gas emissions, and on addressing bottlenecks in the transport sector.	See 2020 CSRs.

Targets set by the Union's Strategy for growth and employment

National 2020 headline targets	Measures (actual progress/new in respect of 2019 National Reform Programme, NRP)	Description of direct relevance to address the target
National 2020 employment target [80%]	The labour market participation (percentage of workers in the population aged 20 to 64 years) was 80.1% in 2019.	
National 2020 R&D target [2.5%]	See table above.	
GHG emission reduction target - non-ETS sectors [-16%] - ETS sectors [not applicable]	In June, the government presented the Climate Agreement establishing the measures and targets for 2030 and 2050.	
National target for renewable energy [14%]	In June, the government presented the Climate Agreement establishing the measures and targets for 2030 and 2050.	
National target energy efficiency [1.5% per year]	In June, the government presented a Climate Agreement establishing the measures and targets for 2030 and 2050.	
National early school-leaving target [<8%]	This figure was 7.5% last year.	
National tertiary education target [>40%]	Last year, the Netherlands achieved a figure of 51.4%.	
National social inclusion and poverty target [100,000 fewer *jobless households*]	See page 14 for accompanying policies on emergency measures, including those geared towards retraining. The programme 'prospects of work' is being developed so that employers and job seekers can find each other easier and faster. In 2020, the labour market regions will be given an extra boost of EUR 35 million to help job seekers find work.	

CHAPTER 7:
DIVERGENCE FROM LATEST STABILITY PROGRAMME

The coronacrisis has significantly worsened public finances compared to the 2020 Stability Programme. The estimates used for the 2020 Stability Programme were already made prior to the outbreak of the corona crisis. As a result of the worsening economic situation and the substantial emergency measures, the balance has deteriorated considerably.

Table 7.1 Divergence from latest Stability Programme

		2019	2020	2021
	ESA Code	% of GDP	% of GDP	% of GDP
Net lending/net borrowing	B.9			
Stability Programme		1.7	1.1	0.1
Draft Budgetary Plan		1.7	-7.2	-5.5
Difference		0.0	-8.3	-5.6

Difference in forecasts between the European Commission and the Netherlands Bureau for Economic Policy Analysis (CPB)

	EC - spring forecast		EC - summer forecast		Budget Memorandum	
	2020	2021	2020	2021	2020	2021
GDP growth	-6.8%	5.0%	-6.8%	-4.5%	-5.0%	3.5%
General government balance	-6.3%	-3.5%			-7.2%	-5.5%
Government debt	62.1%	57.6%			59.1%	61.1%

In the summer forecast, the European Commission assumed a decrease of GDP of 6.8% in 2020, followed by a partial recovery of 4.5%. In comparison to the CPB, the Commission is somewhat more negative about the downturn in 2020, and slightly more positive about the recovery next year. The CPB projects a decrease of 5% in 2020 and 3.5% growth in 2021. Part of the negative difference is attributable to the fact that the Commission still assumed a decrease of 11.5% in the second quarter (the Commission's summer forecast was dated 7 July), which is more than the 8.5% shrinkage shown in the first calculation by Statistics Netherlands, which was used by the CPB in their estimates. Part of the higher growth forecast in 2021 is attributable to higher recovery growth due to the expected downturn in 2020 being more severe.

The last full forecast by the Commission (including public finances) is the spring forecast dated 6 May 2020. This forecast does not differ much from the summer forecast: the forecast for 2020 is the same, but at that time a recovery of 5% of GDP was expected in 2021. In this forecast, the Commission was expecting a much greater downturn in all sectors than the CPB is now assuming. For example, at the time, for 2020 the Commission forecast a decrease of 9.5% in private consumption and 10.6% for exports, whereas the CPB now assumes a decrease of 5.8% and 5.2% respectively.

Based on the Budget Memorandum, the government balance is somewhat more negative in both 2020 and 2021 than the European Commission's spring forecast. Although economic development is less unfavourable in 2020, additional emergency measures have been taken since the European Commission's spring forecast and these further burden the balance. The more unfavourable balance in 2021 can be related to the lower growth forecast for that year. In 2020, public debt will be slightly lower and in 2021 it will be slightly higher than the European Commission's spring forecast. The lower debt in 2020 is partly as a consequence of the denominator effect since – based on the Budget Memorandum – the economic downturn will be lower. The slightly higher debt in 2021 is partly explained by the more unfavourable government balance in both 2020 and 2021. All in all, the differences between both the macroeconomic outlook and the budgetary forecast are limited in light of the time difference between the forecasts and the extensive uncertainties during this crisis.

CHAPTER 8:
DISTRIBUTIONAL IMPACT OF MOST IMPORTANT EXPENDITURE AND REVENUE MEASURES

Purchasing power will be difficult to interpret in the forthcoming period. Static purchasing power projections show how the average disposable income of households develops. It is assumed here that nothing changes in the personal circumstances of households. This means the figures do not take into account the increasing unemployment rate, whereas unemployment leads to a decline in income. They neither take into account other changes in people's private lives, such as moving, having a child or being promoted at work. In this crisis period, one must therefore be very careful in drawing conclusions from these purchasing power projections, irrespective of the general economic uncertainty. According to current expectations, the median purchasing power is set to increase by 2.2% in 2020 and by 0.9% in 2021. Measures taken by the government support the purchasing power. For example, a tax-relief measure on labour income had already been agreed to before, and this Budget Memorandum increases the elderly person’s tax credit. In line with the Kox motion, housing corporations are also obliged to reduce the rents of low-income households with high rents. The accelerated scale down of the self-employed tax deduction and the bringing forward of the increase in the employed person's tax credit are also reflected in the purchasing power.

Table 8. Development of median static purchasing power (%)

	2021
Income group	
1st	0.7
2nd	0.9
3rd	1.1
4th	1.1
5th	0.6
Source of income	
Working households	1.2
Benefit recipients	0.5
Pensioners	0.5
Household type	
Double-income households	0.9
Single householders	0.8
Single-income households	0.8
Family composition	
With children	1.0
Without children	1.1
All households	0.9

ANNEX 1:
METHODOLOGICAL ASPECTS INCLUDING FORECAST EFFECTS OF AGGREGATED BUDGETARY MEASURES FOR ECONOMIC GROWTH

Table B1.1 Methodological aspects

Estimation technique	Steps of the budgetary process for which it was used	Relevant features of the model/technique used
SAFFIER II	Macro forecast for the Dutch economy in the short and medium-term	Macro-econometric model
MIMOSI	Forecast purchasing power, wage costs, social security and personal income tax	Micro simulation model
MICSIM	Forecast of policy effects on structural labour supply	General equilibrium model
ISIS	Forecast trend structural labour supply	HP-filter
TAXUS	Short and medium-term forecast of tax revenue (with the exception of personal income tax)	Detailed forecast tax revenue
ZOEM	Forecast of healthcare expenditure and employment in healthcare sector	Arithmetic model for employment in healthcare sector and for healthcare expenditure in the short and medium-term
Government account	Forecast of government employment, public expenditure and revenue, with the exception of taxes, healthcare and social security	Detailed arithmetic model for government employment and for total public finances in the short and medium-term
EVIEWS in combination with EC software	Forecast output gaps	Econometric model

Modelling tools may have been used:

- when compiling macro forecasts
- when estimating expenditure and revenue at an unchanged policies scenario
- when estimating the distributional impact of the main expenditure and revenue measures
- when quantifying the expenditure and revenue measures to be included in the Draft Budget
- when estimating how reforms included in the Draft Budgetary Plan address targets set by the Union's Strategy for growth and jobs and the country-specific recommendations.

ANNEX 2:
TABLES OF DRAFT BUDGETARY PLAN

Table 0.i) Basic assumptions

In %	2019	2020	2021
Short-term interest rate (annual average)	-0,4	-0,4	-0,5
Long-term interest rate (annual average)	-0,1	-0,3	-0,3
USD/EUR exchange rate (annual average)	1,12	1,12	1,14
Nominal effective exchange rate	-0,7	1,5	0,9
World excluding EU 28, GDP growth	3,5	-4,2	4,8
EU 28 GDP growth	1,1	-8,3	6,5
Growth of relevant foreign markets	3,3	-9,3	6,8
World import volumes, excluding EU	0,1	-12,6	7,8
Oil prices (Brent, USD/barrel)	64,32	41,68	45,07

Table 0.ii) Main assumptions.

	2019	2020	2021
1. External environment			
a. Prices of commodities (raw materials excluding energy (HWWI), euros)	-7,9	-27,3	6,7
b. Spreads over the German bonds	0,1	0,1	0,1
2. Budgetary policy			
a. General government net lending/net borrowing	14,0	-56,3	-44,9
b. General government gross debt	394,6	462,7	502,0
3. Monetary policy/Financial sector/interest rate assumptions			
a. Interest rates:			
i. Euribor			
ii. Deposit rate			
iii. Interest rates for loans			
iv. Yields at maturity of 10 year government bonds	-0,1	-0,3	-0,3
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. Demographic trends			
a. Evolution of working-age population	1,6	-0,1	0,6
b. Dependency ratios	71,2	70,5	70,8
5. Structural policies			

Table 1.a. Macroeconomic prospects

in % of GDP	ESA Code	2019 (billions of euro)	2019	2020	2021
1. Real GDP	B1*g		1,7	-5,0	3,5
1.1. which are attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			1,6	1,4	1,1
Contributions:					
- labour			0,7	0,7	0,2
- capital			0,6	0,4	0,4
- total factor productivity			0,3	0,4	0,4
3. Nominal GDP	B1*g	810,2	4,7	-3,4	5,0
Components of real GDP					
4. Private final consumption expenditure	P.3	354,7	1,5	-5,8	4,4
5. Government final consumption expenditure	P.3	198,6	1,6	3,9	1,9
6. Gross fixed capital formation	P.51	170,1	4,6	-6,0	4,8
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2,3	-0,2	-0,5	0,4
8. Exports of goods and services	P.6	675,2	2,7	-5,2	4,7
9. Imports of goods and services	P.7	590,7	3,2	-3,6	5,8
Contributions to real GDP growth					
10. Final domestic demand		723,4	1,9	-3,0	3,2
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	2,3	-0,2	-0,5	0,4
12. External balance of goods and services	B.11	84,5	-0,1	-1,7	-0,3

Table 1.b. Price developments

Changes	2019	2020	2021
1. GDP deflator	3,0	1,7	1,5
2. Private consumption deflator	2,3	1,5	1,6
3. Harmonised index of consumption prices (HICP)	2,7	1,4	1,4
4. Public consumption deflator	3,6	1,9	1,2
5. Investment deflator	2,9	1,6	1,8
6. Export price deflator (goods and services)	0,3	-1,5	1,4
7. Import price deflator (goods and services)	-0,3	-2,2	1,2

Table 1.c. Labour market developments

Changes	ESA Code	2019 Level	2019	2020	2021
1. Employment, persons		9575,6	1,9	-2,0	-0,3
2. Employment, hours worked		13786,9	2,2	-3,6	1,2
3. Unemployment rate (%)		314,2	3,4	4,3	5,9
4. Labour productivity, persons		84,6	-0,2	-3,1	3,7
5. Labour productivity, hours worked		58,8	-0,5	-1,3	2,2
6. Compensation of employees	D.1	388,4	5,0	0,5	1,9
7. Compensation per employee		40,6	2,4	4,1	0,5

Table 1.d. Sectoral balances

in % of GDP	ESA Code	2019	2020	2021
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	9,9	8,3	7,6
Of which:				
- Balance on goods and services		10,4	9,4	8,9
- Balance of primary incomes and transfers		0,4	0,0	0,0
- Capital account		-0,9	-1,1	-1,2
2. Net lending/net borrowing of the private sector	B.9	8,2	16,0	13,4
3. Net lending/net borrowing of general government	B.9	1,7	-7,2	-5,5
4. Statistical discrepancy				

Table 2.a. General government budgetary targets broken down by subsector

in % of GDP	ESA Code	2020	2021
Net lending/net borrowing by subsector			
1. Government	S.13	-7,2	-5,5
2. Central government	S.1311	-7,7	-5,9
3. State government	S.1312		
4. Local government	S.1313	-0,2	-0,2
5. Social security funds	S.1314	0,7	0,6
6. Interest expenditure	D.41	0,6	0,4
7. Primary balance		-6,6	-5,0
8. One-off and other temporary measures		0,0	0,0
8a. *Of which: on the revenue side*		0,0	0,9
8b. *Of which: on the expenditure side*		0,0	0,9
9. Real GDP growth (%) (= 1 in table 1.a)		-5,0	3,5
10. Potential GDP growth (%) (= 2 in table 1.a)		1,4	1,1
Contributions:			
- labour		0,7	0,2
- capital		0,4	0,4
- total factor productivity		0,4	0,4
11. Output gap (% of potential GDP)		-5,0	-2,7
12. Cyclical budgetary component (% of the potential GDP)		-2,8	-1,4
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-4,4	-4,1
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-3,8	-3,6
15. Structural balance (13 - 8) (% of the potential GDP)		-4,4	-4,1

Table 2.b General government debt developments

in % of GDP	ESA Code	2020	2021
1. Gross debt		59,1	61,1
2. Change in gross debt ratio		10,5	2,0
Contributions to changes in gross debt			
3. Primary balance (= item 7 in Table 2.a.i)		-6,6	-5,0
4. Interest expenditure (= item 6 in Table 2.a.i)	D.41	0,6	0,4
5. Stock-flow adjustment		3,3	-3,5
Of which:			
- Differences between cash and accruals		-0,4	1,4
- Net accumulation of financial assets		0,4	0,1
Of which:			
- privatisations		-0,3	-0,1
- valuation effects and other			
p.m.: Implicit interest rate on debt		1,0	0,7
Other relevant variables			
6. Liquid financial assets		-1,7	1,6
7. Net financial debt (7=1-6)		60,8	59,5
8. Debt amortization (existing bonds) since the end of the previous year		38,2	20,1
9. Percentage of debt denominated in foreign currency		0,0	0,0
10. Average maturity		6,2	6,4

Table 2.c Contingent liabilities

in % of GDP	2020	2021
Public guarantees	31,1	29,3
Of which: related to the financial sector	17,9	16,8

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components
&
Table 4.a General government expenditure and revenue targets, broken down by main components.

in % of GDP		2020	2021
General government (S.13)	ESA Code		
1. Total revenue at unchanged policy	TR	42,6	43,0
Of which:			
1.1. Taxes on production and imports	D.2	11,7	12,2
1.2. Current taxes on income, wealth, etc.	D.5	11,6	12,5
1.3. Capital taxes	D.91	0,3	0,3
1.4. Social contributions	D.61	14,4	13,7
1.5. Property income	D.4	0,7	0,7
1.6. Other		3,8	3,6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		38,0	38,7
2. Total expenditure at unchanged policy	TE	50,2	48,1
Of which:			
2.1. Compensation of employees	D.1	9,0	8,9
2.2. Intermediate consumption	P.2	7,2	6,5
2.3. Social payments	D.62	21,9	22,2
Of which: Unemployment benefits	D.632	1,5	1,7
2.4. Interest expenditure	D.41	0,6	0,4
2.5. Subsidies	D.3	5,4	2,8
2.6. Gross fixed capital formation	P.51	3,7	3,9
2.7. Capital transfers	D.9	0,8	1,7
2.8. Other		1,7	1,7

Table 4.b Amounts to be excluded from the expenditure benchmark

in % of GDP	2019 (€ bln.)	2019	2020	2021
ESA Code				
1. Expenditure on EU programmes fully matched by EU funds revenue	208,7	2,6	3,1	3,6
2. Cyclical unemployment benefit expenditure*	16,6	0,2	0,4	0,4
3. Effect of discretionary revenue measures	-3,5	-0,4	-0,1	0,4
4. Revenue increases mandated by law	2,8	0,3	-1,2	1,2

*This item contains: Unemployment Act (WW), social assistance benefit for the self-employed, implementation costs of the Employee Insurance Agency (UWV), 60+ unemployment benefits (IOW), mobility bonus for older beneficiaries and the occupationally disabled, *BUIG* and revenue of government implementation fund (UFO)

4.c.i) General government expenditure on education, healthcare and employment

In %	2020		2021	
	% GDP	government expenditure	% GDP	government expenditure
Education	4,6	36,2	4,7	38,3
Healthcare	7,3	57,0	7,5	61,6
Employment*	0,4	2,8	0,3	2,6

*This item contains: Participation Budget and Sheltered Employment Act (WSW, since 2015 via social participation fund), reintegration programmes for occupationally disabled, 50+ workforce participation, sector plans, life-course transitional arrangement, contribution reduction for youth, start-up deduction in case of disability, youth unemployment approach and low-income benefit.

4.c.ii) Classification of functions of the Government

in % of GDP		2020	2021
Functions of the Government	COFOG Code		
1. General public services	1	4,5	4,4
2. Defence	2	1,1	1,1
3. Public order and safety	3	1,5	1,5
4. Economic affairs	4	11,1	8,5
5. Environmental protection	5	1,5	1,4
6. Housing and community amenities	6	0,3	0,3
7. Health	7	7,3	7,5
8. Recreation, culture and religion	8	1,2	1,2
9. Education	9	4,6	4,7
10. Social protection	10	15,0	15,5
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	48,1	46,1