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COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plan of the Netherlands

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of the Netherlands

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1. INTRODUCTION

The Netherlands submitted its Draft Budgetary Plan (DBP) for 2018 on 12 October 2017 in compliance with Regulation (EU) No 473/2013 of the Two-Pack. On 26 October 2017, the new government was installed. On 3 November, the government sent an addendum to the DBP, which endorses all measures of the DBP and reflects and formalises the measures of the coalition agreement of 10 October 2017. As the format of the tables in the addendum does not correspond to the requirements in the Code of Conduct, an update of the DBP calculations in the present assessment could not be carried out. All tables in this document refer to the initial DBP figures. The Dutch authorities are required to submit updated tables conform to the requirements under the Code of Conduct without undue delay. The Netherlands is 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).

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2017 autumn forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2017 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2017-2018 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis on the composition of public finances and on fiscal-structural issues in response to the latest country-specific recommendations adopted by the Council in the summer of 2017. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic projections underlying the Draft Budgetary Plan are based on an updated forecast of the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB) (see Box 1). The DBP was submitted during the process of government formation. It includes measures that were announced in the budget memorandum of the caretaker government on 19 September 2017. The addendum is based on an updated macro-economic scenario by the CPB. It endorses the measures of the DBP and adds the measures of the coalition agreement. The Commission forecast also takes into account the measures announced in the coalition agreement.

Compared to the 2017 Stability Programme, the growth outlook is revised upwards in the DBP. This is mainly explained by a better-than-expected second quarter of 2017. GDP growth is projected to increase from 2.2% in 2016 to 3.3% in 2017 and then to decelerate to 2.5% in 2018. The strong performance of 2017 is mostly driven by domestic demand with investment growth reaching 6.3% in 2017. Net exports also contribute to GDP growth in 2017, but to a lesser extent. The addendum anticipates higher GDP growth of 3.1% in 2018, due to the stimulus measures of the coalition agreement and a coinciding more positive macroeconomic outlook.

The Commission 2017 autumn forecast projects a similar path of GDP growth with 3.2% in 2017, which is decelerating to 2.7% in 2018. The differences between the DBP and the Commission forecast are relatively small in 2017. For 2018, the growth outlook is more positive in the Commission forecast than in the DBP as it includes the measures of the coalition agreement. The Commission forecast for 2018 is, however, more prudent than that of the addendum, which is mainly explained by a lagged effect of stimulus measures in the Commission forecast.

The DBP, the addendum and Commission forecast anticipate the economic growth to be accompanied by an improving labour market. According to the DBP, the unemployment rate of 4.9% in 2017 is forecast to decrease to 4.3% in 2018. Taking into account the fiscal stimulus, the addendum projects the unemployment rate to decrease to 4.1% in 2018. This is broadly in line with the Commission forecast (4.0 % in 2018). The DBP projects a stable HICP inflation at 1.3% in 2017 and 2018, while the addendum anticipates a higher rate (1.6% in 2018). The Commission forecast is in line with the addendum with an HICP forecast at 1.5% in 2018.

The main risk to the macroeconomic outlook stems from the uncertainty surrounding the future status of the trade relationship with the United Kingdom, which is a very important trading partner for the Netherlands in terms of gross trade as well as value added. Overall, the DBP's macroeconomic assumptions are plausible.

Box 1: The macroeconomic forecast underpinning the budget in the Netherlands

The macroeconomic forecast underlying the draft budget for 2018 was produced by the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, CPB).[1]

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 Law on the Sustainability of Public Finances (*Wet houdbare overheidsfinanciën*, or Wet HOF).

[1] The CPB also provided the macroeconomic scenario for the addendum.

Table 1. Comparison of macroeconomic developments and forecasts

	2016	2017			2018		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	2.2	2.1	3.3	3.2	1.8	2.5	2.7
Private consumption (% change)	1.6	2.0	2.2	2.1	1.4	2.4	2.3
Gross fixed capital formation (% change)	5.3	3.2	6.3	5.5	2.1	4.5	4.5
Exports of goods and services (% change)	4.3	3.5	4.9	5.4	3.9	4.5	4.7
Imports of goods and services (% change)	4.1	3.6	4.5	5.0	3.9	5.1	5.2
Contributions to real GDP growth:							
- Final domestic demand	2.0	1.7	2.3	2.3	1.2	2.3	2.6
- Change in inventories	-0.4	0.1	0.0	0.1	0.1	0.1	0.0
- Net exports	0.6	0.3	0.9	0.9	0.4	0.1	0.1
Output gap[1]	-1.2	-0.1	0.2	0.2	0.3	0.9	1.0
Employment (% change)	1.1	1.8	2.1	2.1	0.9	1.5	1.8
Unemployment rate (%)	6.0	4.9	4.9	4.8	4.7	4.3	4.0
Labour productivity (% change)	0.9	0.2	1.1	1.1	0.9	1.0	0.9
HICP inflation (%)	0.1	1.6	1.3	1.3	1.4	1.3	1.5
GDP deflator (% change)	0.6	1.2	1.1	1.1	1.4	1.6	1.4
Comp. of employees (per head, % change)	1.2	2.5	2.3	1.7	2.6	3.1	2.7
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	8.5	8.2	8.8	8.5	8.2	8.5	8.2

Note:

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

Source:

Stability Programme 2017 (SP); Draft Budgetary Plan for 2018 (DBP); Commission 2017 autumn forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The projected general government balance of the DBP shows a surplus of 0.6% of GDP in 2017, which is close to the surplus projected in the 2017 Stability Programme (0.5% of GDP). The government surplus is also in line with the Commission 2017 autumn forecast (0.7% of GDP).

For 2018, the DBP foresees a government surplus of 0.8% of GDP, which is the same as in the Stability Programme. In the addendum, the government surplus is anticipated to be slightly lower at 0.5% of GDP, due to expansionary fiscal measures in 2018. The Commission forecasts a surplus of 0.5% of GDP in 2018 as well. This is the result of the fiscal stimulus of the coalition agreement, which includes several expenditure items in 2018, the main ones being higher defence and security expenditures (EUR 1.3 billion), higher social transfers (EUR 0.6 billion) and an increase in salaries of primary school teachers (EUR 0.3 billion). At the same time, tax revenues are projected to increase, limiting the negative budgetary impact of the fiscal stimulus. Given the stable economic performance, risks to the Commission's projections are limited.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2016	2017			2018			Change: 2016-2018
	COM	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**	**DBP**
Revenue	**43.8**	**44.3**	***43.6***	**43.9**	**44.2**	***43.5***	**43.8**	**-0.3**
of which:								
- Taxes on production and imports	11.6	11.8	*11.7*	11.8	11.8	*11.7*	11.8	0.0
- Current taxes on income, wealth, etc.	11.7	12.4	*12.4*	12.2	12.1	*11.8*	12.4	0.1
- Capital taxes	0.3	0.3	*0.3*	0.3	0.3	*0.3*	0.3	0.0
- Social contributions	15.3	14.9	*14.6*	14.9	15.2	*15.2*	14.8	-0.1
- Other (residual)	5.0	4.9	*4.6*	4.8	4.8	*4.5*	4.6	-0.4
Expenditure	**43.4**	**43.9**	**43.0**	**43.2**	**43.4**	**42.7**	**43.3**	**-0.7**
of which:								
- Primary expenditure	42.4	42.9	42.1	42.2	42.5	41.9	42.4	-0.5
of which:								
Compensation of employees	8.7	8.7	8.6	8.5	8.6	8.4	8.6	-0.2
Intermediate consumption	5.8	5.8	5.7	5.8	5.7	5.7	6.2	-0.1
Social payments	21.5	21.5	21.0	21.0	21.4	20.8	20.5	-0.7
Subsidies	1.2	1.3	1.2	1.2	1.3	1.2	1.2	0.0
Gross fixed capital formation	3.5	3.3	3.4	3.4	3.3	3.3	3.5	-0.2
Other (residual)	1.6	2.3	2.2	2.3	2.2	2.5	2.3	0.7
- Interest expenditure	1.1	1.0	1.0	1.0	0.9	0.8	0.8	-0.2
General government balance (GGB)	**0.4**	**0.5**	**0.6**	**0.7**	**0.8**	**0.8**	**0.5**	**0.4**
Primary balance	**1.4**	**1.4**	**1.5**	**1.7**	**1.7**	**1.6**	**1.4**	**0.2**
One-off and other temporary measures	0.3	0.3	0.3	0.3	0.1	0.1	0.1	-0.1
GGB excl. one-offs	**0.1**	**0.2**	**0.3**	**0.4**	**0.7**	**0.7**	**0.4**	**0.6**
Output gap[1]	-1.2	-0.1	0.2	0.2	0.3	0.9	1.0	2.2
Cyclically-adjusted balance[1]	1.1	0.6	0.4	0.6	0.6	0.2	-0.1	-1.0
Structural balance (SB)[2]	**0.9**	**0.3**	**0.2**	**0.3**	**0.5**	**0.1**	**-0.2**	**-0.8**
Structural primary balance[2]	2.0	1.3	1.1	1.3	1.4	0.9	0.6	-1.1

Notes:

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

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

Source:

Stability Programme 2017 (SP); Draft Budgetary Plan for 2018 (DBP); Commission 2017 autumn forecast (COM); Commission calculations

The structural balance[2] of the DBP in 2017 (0.2 %) is slightly lower than the Commission forecast (0.3 %), stemming from the lower headline balance. For 2017, the addendum arrives at a balanced budget in structural terms, i.e. below the Commission forecast, which is mainly due to the larger output gap estimate and therefore a larger cyclical adjustment in the government's forecast[3]. In 2018, the Commission forecasts a structural budget deficit of 0.2% of GDP, compared to the DBP's (recalculated) structural surplus of 0.1%. This difference is due to the fact that the DBP does not take into account all measures of the coalition agreement. The addendum anticipates a structural balance of -0.7%, which is significantly below the Commission forecast. This difference is explained by a substantially larger output gap, compared to the one used in the Commission calculation.

Euro area sovereign bond yields remain at historically low levels, with 10-year rates in the Netherlands currently standing at 0.45%[4]. As a consequence, total interest payments by the general government have continued to decrease as a share of GDP. Based on the information included in the DBP, interest expenditure in the Netherlands is expected to fall from 1.1% of GDP in 2016 to 1.0% in 2017 and to decrease further the following year, to 0.8% of GDP, well below the 2.0% recorded back in 2009. The picture stemming from the DBP is broadly confirmed by the Commission forecast.

Ex-ante compliance of the budget plan with the numerical fiscal rules was assessed by the Advisory Division of the Council of State (CoS-AD), based on a mandate granted by the Wet HOF. The CoS is a public body that is constitutionally independent from the government. In its report on the budget memorandum published on 14 September 2017[5], the CoS-AD acknowledges that the debt and expenditure rules are complied with in 2017 and 2018. On 03 November[6], the CoS-AD published an assessment of the coalition agreement, taking into account the updated CBP forecast. The CoS-AD concludes that the budget plan following the coalition agreement continues to comply with the debt and expenditure rules in 2017 and 2018.

3.2. Debt developments

The DBP projects the government debt-to-GDP to fall considerably over the forecast horizon, from 61.8% in 2016 to 57.5% in 2017 and 54.5% in 2018.

The debt trajectory is more favourable than was expected in the 2017 Stability Programme. The faster debt reduction is mostly due to higher-than-expected GDP growth in 2017 as well as stock-flow adjustments. For 2017, the sale of shares of state-owned financial institutions has a positive effect on government debt (0.8 % of GDP). Based on the assumption of a more positive economic outlook than in the DBP, which offsets the somewhat lower budget surplus,

[2] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The recalculation is based on the data provided in the DBP and does not include any numbers of the addendum.
[3] It should be noted that due to a lack of information, the structural balance as presented in the addendum could not be recalculated.
[4] 10-year bond yields as of 06 November 2017. Source: Bloomberg.
[5] https://www.raadvanstate.nl/pers/persberichten/tekst-persbericht.html?id=1078
[6] https://www.raadvanstate.nl/pers/persberichten/tekst-persbericht.html?id=1091&summary_only=&category_id=8

the addendum projects the debt-to-GDP ratio to decrease further to 57.1% in 2017 and 54% in 2018.

The Commission autumn forecast shows a similar decline in the government debt ratio in 2017 and 2018, even though at a marginally slower pace than in the DBP and the addendum, due to lower stock-flow adjustments in 2017 and a weaker decrease of the primary balance in 2018.

Table 3. Debt developments

(% of GDP)	2016	2017			2018		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**61.8**	**58.5**	**57.5**	**57.7**	**55.5**	**54.4**	**54.9**
Change in the ratio	-2.8	-3.3	-4.3	-4.1	-3.0	-3.1	-2.9
Contributions [2] :							
1. Primary balance	**-1.4**	**-1.4**	**-1.5**	**-1.7**	**-1.7**	**-1.6**	**-1.4**
2. "Snow-ball" effect	**-0.7**	**-1.1**	**-1.7**	**-1.6**	**-1.0**	**-1.5**	**-1.5**
Of which:							
Interest expenditure	1.1	0.9	0.9	1.0	0.9	0.8	0.8
Growth effect	-1.4	-1.3	-2.0	-1.9	-1.0	-1.4	-1.5
Inflation effect	-0.4	-0.7	-0.6	-0.6	-0.8	-0.9	-0.8
3. Stock-flow adjustment	**-0.7**	**-0.8**	**-1.1**	**-0.8**	**-0.3**	**0.0**	**0.0**
Of which:							
Cash/accruals difference			-0.40			0.20	
Net accumulation of financial			-0.50			0.10	
of which privatisation proceeds			-0.40			0.00	
Valuation effect & residual			0.00			0.00	

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

Source:

Stability Programme 2017 (SP); Draft Budgetary Plan for 2018 (DBP); Commission 2017 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the draft budgetary plan

The budgetary development over the horizon of the DBP is largely determined by the macroeconomic environment. Since the DBP only includes the fiscal measures of the budget memorandum, not the additional ones of the coalition agreement, the impact of those measures is limited. Table 4a and 4b give an overview of discretionary policy measures presented in the DBP[7]. In 2018, the revenue is expected to decrease by 0.2% of GDP due to a reduction in health insurance premia (0.1% of GDP) and a curb of the natural gas production that reduces revenues by another 0.1% of GDP. In addition to the measures listed in the DBP, the coalition agreement refers to a tax package for companies that is expected to deliver additional revenue of 0.1% of GDP in 2018.

On the expenditure side, the DBP includes small expenditure-increasing discretionary measures for 2017-2018. The government plans to raise expenditure (0.1% of GDP) on security and primary education, notably primary teachers' salaries in 2018. Furthermore, the quality of nursing home care is planned to be improved and healthcare benefits are increased with an expenditure of 0.1% of GDP in 2017 and 2018. In addition to those measures, the coalition agreement increases the expenditure on defence by 0.1% of GDP, the contribution to an infrastructure fund (<0.1% of GDP) and the expenditure on environmental protection (<0.1% of GDP).

The DBP does not report additional one-off measures for 2017 and 2018. However, the assessment of the DBP is taking into account a revenue-increasing one-off measure related to the taxation of SMEs (the phase-out of the '*pension in eigen beheer*') as reported in the previous DBP. It is estimated to lead to additional tax revenues of EUR 2.1 billion in 2017 (0.3% of GDP) and EUR 0.8 billion in 2018 (0.1% of GDP).

Given that the DBP only contains measures planned by the caretaker government, it does not include all measures of the coalition agreement and the addendum. The Commission 2017 autumn forecast takes the measures of the DBP as well as the additional measures presented in the addendum into account.

Some of the measures presented in the DBP, such as the higher salaries for primary school teachers and the purchasing power-improving measures for low-income households, have potentially demand-increasing effects, in line with the Council Recommendation[8] of 11 July 2017 to use fiscal and structural policies to support potential growth and domestic demand. Following the coalition agreement and addendum, the planned fiscal stimulus over the years 2018-2021 is increased, further strengthening potential demand.

[7] The DBP does not report all previously implemented measures and thus the tables can differ from the discretionary impact underlying the preventive arm assessment.

[8] Council Recommendation of 11 July 2017 on the 2017 National Reform Programme of the Netherlands and delivering a Council opinion on the 2017 Stability Programme of the Netherlands (OJ C 261, 9.8.2017, p. 79–82).

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2017	**2018**
Taxes on production and		
Current taxes on income,	0	0
Capital taxes		
Social contributions	0.1	-0.1
Property Income	-0.1	-0.1
Other		
Total	0	-0.2

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2018

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2017	**2018**
Compensation of employees		
Intermediate consumption	0	0.1
Social payments	0.1	0.1
Interest Expenditure		
Subsidies		
Gross fixed capital formation		
Capital transfers		
Other		
Total	0.1	0.2

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2018

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

The Netherlands is subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO of -0.5 % of GDP. Since the Netherlands is expected to achieve a debt-to-GDP ratio considerably below the 60% Treaty reference value from 2017 onwards, the debt reduction benchmark is not applicable anymore. Box 2 reports the latest country-specific recommendation in the area of public finances.

Box 2. Council Recommendations addressed to the Netherlands

On 11 July 2017, the Council addressed recommendations to the Netherlands in the context of the European Semester. In particular, in the area of public finances the Council recommended to "while respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand, including investment in research and development."

4.1. Compliance with the MTO

In 2016, the Netherlands was above its MTO with a structural budget balance of 0.9 % of GDP. Based on the recalculated DBP, the Netherlands remains above the MTO in 2017 and 2018. The Commission 2017 autumn forecast confirms this conclusion. Given the positive economic outlook, the risk of deviation from the MTO is limited.[9]

In its opinion on the draft budget, the CoS-AD acknowledges the expected compliance of government finances with the SGP in 2017 and 2018. In view of volatile public finances, the CoS argues in favour of keeping sufficient distance to the MTO to promote stability and growth.

[9] Given that the addendum did not include sufficient detail to recalculate the structural balance using the commonly agreed methodology, a formal assessment of the structural balance is not possible. However, when taking the structural deficit of 0.7% of GDP in the addendum at face value, this would be sufficient to ensure compliance with the MTO in 2018. This is also acknowledged by the CoS in their updated assessment.

Table 7: Compliance with the requirements of the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	0.9	0.3		-0.2	
Structural balance based on freezing (COM)	0.9	0.2		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]					
Required adjustment corrected[5]					
Change in structural balance[6]					
One-year deviation from the required adjustment [7]					
Two-year average deviation from the required adjustment [7]					
Expenditure benchmark pillar	Compliance				
Applicable reference rate[8]					
One-year deviation adjusted for one-offs [9]					
Two-year average deviation adjusted for one-offs [9]					
PER MEMORIAM: One-year deviation [10]					
PER MEMORIAM: Two-year average deviation [10]					
Conclusion					
Conclusion over one year	Compliance	Compliance	Compliance	Compliance	Compliance
Conclusion over two years	Compliance	Compliance	Compliance	Compliance	Compliance

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

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

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2016) was carried out on the basis of Commission 2017 spring forecast.

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

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

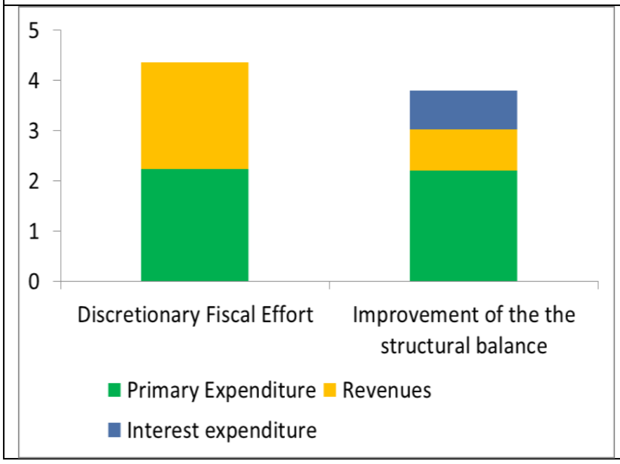
Draft Budgetary Plan for 2018 (DBP); Commission 2017 autumn forecast (COM); Commission calculations.

5. COMPOSITION OF PUBLIC FINANCES AND IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

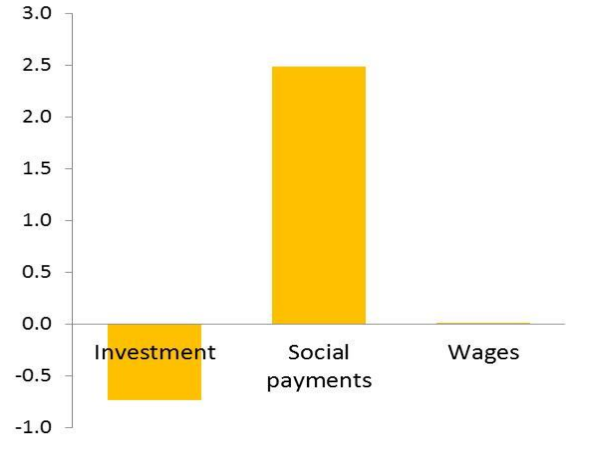
According to the Commission 2017 autumn forecast, the total discretionary fiscal effort stands at -0.7% of GDP in 2018, which is due to the primary expenditure (0.9% of GDP) being higher than revenue (0.2% of GDP). In the years 2011-2017, the fiscal policy stance was much different (see Graph 1): the total discretionary fiscal revenue amounted to 2.1% of GDP and expenditure to 2.2%. Both figures are affected by the fiscal consolidation in 2013, when the Netherlands exited the Excessive Deficit Procedure. The improvement of the structural balance is mainly driven by lower expenditure (2.2% of potential GDP) as well as higher revenues (0.8% of potential GDP) and lower interest expenditure (0.8% of potential GDP).

Regarding the composition of public expenditure, the weights of investment, social benefits and compensation of employees as a share of total expenditure have stayed relatively stable since 2011. The Commission forecast projects a small increase of those three items as a share of total expenditure in 2018. When looking at the years 2011-2017, investment as a share of total expenditure has decreased by 0.7 percentage point. Social transfers and benefits have increased their share in total expenditure (by 2.5 percentage points over 2011-2017), whereas compensation of employees has roughly stayed constant.

Graph 1: Composition of the fiscal effort (2011-2017), the Netherlands (% GDP)



Graph 2: Change in the share in total expenditure of selected expenditure items (2011-2017), the Netherlands (% change)



Source: Draft Budgetary Plans 2018, European Commission 2017 autumn forecast.

Graph 1 shows the Discretionary Fiscal Effort (DFE) which combines a top-down approach on the expenditure side with a bottom-up or narrative approach on the revenue side. In a nutshell, the DFE consists of the increase in primary expenditure net of cyclical components relative to economic potential on the one hand, and of discretionary revenue measures on the other hand. See European Commission (2013): Measuring the fiscal effort, Report on Public Finances in EMU, part 3 http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf.

The DBP contains limited information on the fiscal structural reforms recommended by the Council on 11 July 2017. The DBP refers to the measures supportive to households' purchasing power (EUR 0.4 billion, less than 0.1% of GDP, mainly in healthcare and child-related benefits) that are expected to increase domestic demand. For the remaining country-specific recommendations (CSRs), the DBP refers to the new government to take further steps.[10]

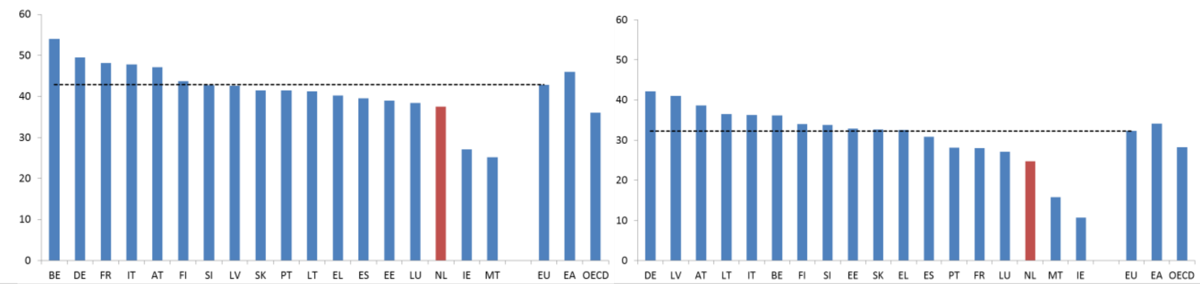
A comprehensive assessment of progress made with the implementation of CSRs will be made in the 2018 Country Report, which will take into account the measures announced by the new government.

Box 3 – Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker's net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in the Netherlands for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average

The tax burden on labour in the Netherlands at the average wage and at low wage (2016)



Notes: No recent data is available for Cyprus. EU and EA averages are GDP-weighted. The OECD average is not weighted. These graphs represent only the tax wedge on labour; compulsory healthcare and pension contributions, which in the case of the Netherlands account for a relatively large part of the burden on labour, are not included.

Source: European Commission Tax and Benefit Indicator database based on OECD data.

Benchmarking is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

The Draft Budgetary Plan includes a purchasing power package (<0.1% of GDP) affecting the tax wedge on labour to a limited extent.

[10] The addendum does not refer to the implementation of the CSRs.

6. OVERALL CONCLUSION

According to the information provided in both the DBP and the Commission 2017 autumn forecast, the structural balance is projected to remain above the medium-term objective in 2017 and 2018.[11]

[11] Given that the Commission forecast already includes all measures related to the coalition agreement and the addendum, the addendum itself does not have a material impact on the overall assessment.