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Subject The Netherlands - Request for clarifications on the compliance of the Netherlands' DBP for 2024

Dear Mr. Verwey,

Thank you for your letter of the 27th of October 2023, where you ask for clarifications on the compliance of the Draft Budgetary Plan (DBP) 2024 of the Netherlands with the Council Recommendations of the 14th of July 2023. According to your preliminary analysis, the DBP of the Netherlands results in a nominal increase in nationally financed net primary expenditure (henceforth, net expenditure) in 2024 of 6.1%, which exceeds the maximum recommended growth rate of 3.5%. Net expenditure is planned to exceed the recommendation by 1.1% of GDP in 2024. We acknowledge the Council's recommendations and appreciate the preliminary analysis conducted by your services. Please allow me to provide the requested additional information on the drivers of our net expenditure in 2024 and on our fiscal framework.

In the Council Recommendations, the Council recommends on the maximum nominal increase in nationally financed net primary expenditure of member states. For the Netherlands, the maximum is 3.5%. As this recommendation regards the nominal increase, inflation is not taken into account. The nominal increase in net expenditure can partly be explained by the high expected inflation.

In that regard, we believe that certain elements of our trend-based budgetary policy should be taken into account. One of the key elements of the trend-based budgetary policy in the Netherlands is set expenditure ceilings for the cabinet period. At the start of a cabinet period (in the so-called *Startnota*), the cabinet sets expenditure ceilings for the upcoming years. Every year during the cabinet period, the cabinet presents the budget for the upcoming year in the annual budget memorandum (*Miljoenennota*). This budget cannot exceed the set expenditure ceiling. This medium term approach has similarities with the philosophy underlying the Commission proposal for the reform of the European budgetary rules. To ensure that the cabinet can realize its goals within the set budget, the expenditure ceiling is set in real terms. Therefore, the expenditure ceiling is corrected every year for expected inflation and wage developments. This explains part of the higher expenditure relative to the Council recommendation. In this regard, we think that the deliberations on the future of the European budgetary rules would benefit from careful reflections on how to deal with periods of unexpectedly high inflation.

Furthermore, the expected nominal increase in nationally financed net primary expenditure can be partly explained by the ambitious coalition agreement of cabinet Rutte IV. The coalition agreement of cabinet Rutte IV, which is our caretaker government at this moment, contains an ambitious investment agreement to tackle large societal challenges. The agenda includes future-oriented investment in, among other things, sustainability, education, nitrogen reduction and housing, which is in line with the Council recommendation to preserve nationally financed public investment. This agenda led to an expansionary coalition agreement, as the cabinet deems these investments necessary to ensure the well-being of future generations. Therefore, the cabinet accepted a temporary deterioration of the EMU-deficit and -debt. Any additional measures taken to support purchasing power and prevent rising poverty rates were all supplied with budgetary coverage. Also, measures were taken in spring (*Voorjaarsnota*) to cover the additional expenditures on interest and asylum within the budget. The expansionary ambition of the coalition agreement has not been fully reflected in the actual budgetary outcomes in 2022 and 2023, with budget deficits being lower than planned. The projected spending has not been fully met, partly due to lacking capacity as a result of a tight labour market. This is an important reason that the change in the structural budget balance from 2023 and 2024 shows a marked decline, which is also a reason for relatively high expected expenditure growth from 2023 to 2024. We recognize that the annual approach to assessing the evolution of the budget balance and spending growth is consistent with the current Stability and Growth Pact. In a medium term approach, in our view, the lower than planned deficits in 2022 and 2023 are relevant when considering the evolution of spending and the structural deficit in 2024.

Lastly, we would like to mention that the outcome of the General Political Debate (*Algemene Politieke Beschouwingen*) and the General Financial Debate (*Algemene Financiële Beschouwingen*), has not been included in the DBP. If the proposals by the parliament are fully implemented, this is expected to affect the budgetary outlook for 2024. A letter has been sent to the parliament about the budgetary implications.

By the means of this letter, we hope to have provided you with more information on the drivers of the net expenditure in 2024. Our budgetary experts are available to answer any further questions.

Yours sincerely,



Christiaan Rebergen
Treasurer-General