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The Dutch Budgetary Framework and the European Fiscal Rules

By Hauke Vierke and Maarten Masselink

Summary

The Netherlands has a unique budgetary framework that is built around multiannual expenditure ceilings. The underlying principle is that budgetary policy should be trend-based, with a longer-term perspective. Independent macroeconomic forecasts and non-partisan evaluation of the budget plans have a longstanding tradition and predate similar requirements set at the European level. A central element of the national framework is the commitment of a government to adhere to pre-agreed expenditure ceilings over a four-year term. However, experience with meeting the European fiscal targets is mixed, and it appears that the Dutch framework does not necessarily ensure compliance with the European objectives.

This note discusses possible reasons for this discrepancy. When compared along different dimensions, the operational objectives of the domestic and EU frameworks are not fully aligned. Long-run sustainability is assessed differently at the national and the EU level. Also, the medium-term objective is not fully operationalised within the national context. Finally, there are methodological differences with regard to the expenditure rules. Overall, this may lead to a dilemma for Dutch policy makers, who use the same policy instruments to fulfil different policy objectives. The current initiative at the EU level towards a greater emphasis on the expenditure benchmark offers an opportunity to bring the Dutch framework closer to the European one. Nevertheless, this analysis is non-exhaustive and a further discussion could identify possible ways to align the objectives, while preserving the successful elements of the Dutch budgetary framework.

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Introduction

The Dutch budgetary framework has a strong focus on trend-based policy. It is built around multiannual expenditure ceilings, which helps to ensure budget control and transparency. As such, it is marked as a good practice example of national expenditure rules (Ayuso-i-Casals, 2012, and European Commission, 2010). At the same time the track record with respect to the European fiscal rules is mixed: Since the introduction of the medium-term objective under the Stability and Growth Pact, the Netherlands has deviated from the objective in most of the years. According to the assessment by the European Commission, the Netherlands also shows a medium fiscal sustainability risk in the long-term (European Commission, 2017). Hence, the Dutch budgetary framework does not necessarily ensure that European fiscal objectives are met[1].

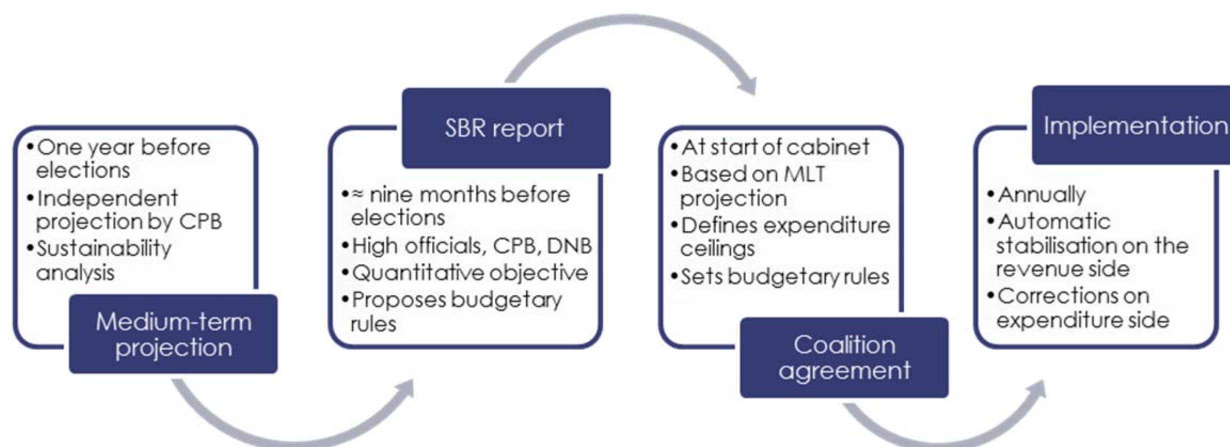
Following the general elections in March, a new government will define budgetary rules and expenditure ceilings for the next four years. The current juncture opens up an opportunity to evaluate the effectiveness of the Dutch budgetary framework from a European perspective. Therefore, this note provides a brief overview of the current framework and compares the budgetary objectives at national and European level.

Overview of the Dutch budgetary framework

In the Netherlands, the discussion of the budgetary rules for the next four years starts at the end of an incumbent government's term, as schematically depicted in Graph 1. One year before general elections, the CPB Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*) publishes a macroeconomic projection, covering the next 4 to 5 years[2]. This medium-term projection (*Middellangetermijnverkenning*, MLT) includes trajectories for the government balance and the debt ratio as well as an assessment of the long-term sustainability of public finances. It is based on the assumption of unchanged policy.

The MLT serves as an important input for the report by the *Studiegroep Begrotingsruimte* (SBR), a non-partisan national advisory group on budgetary principles, which has issued recommendations on budgetary policy since 1971. The SBR is formally asked for advice by the incumbent Minister of Finance and consists of high-level officials from different ministries, the director of the CPB, and the President of the Dutch Central Bank (DNB). On the basis of the MLT, the SBR assesses the room for fiscal manoeuvre and defines quantitative budgetary objectives. It also assesses the effectiveness of the budgetary framework and proposes changes to the budgetary rules. Although they are not binding, the recommendations by the SBR usually have an influence on the political party programmes and the course of the Dutch budgetary policy. The latest report was released in July 2016 (Studiegroep Begrotingsruimte, 2016). After the election, the new government publishes its coalition agreement along with the initial budget memorandum, the so-called *startnota*, which sets the rules for the next four annual budgetary cycles. A key example for the influence by the SBR is the 1993 report, which proposed switching from deficit-focused policy to 'trend-based' budgetary planning with multiannual fixed expenditure ceilings.

Graph 1: The setting of the budget rules during the electoral cycle



Source: European Commission

The coalition agreement defines expenditure ceilings for three main budgetary areas (central government, social security and health care) and sets benchmarks for the revenue side. The trend-based principle implies that while revenues are allowed to fluctuate over the cycle, the expenditure ceilings have to be respected. In 2014, the basic rules of this budget policy have been anchored in the Law on Sustainable Government Finances (*Wet Houdbare Overheidsfinanciën*, WetHOF). The switch to trend-based budgetary policy is generally regarded as a success. The IMF, the OECD and the European Commission have regularly assessed the Dutch fiscal framework as an example of good practice that achieves a high degree of budgetary transparency; the framework holds features which are commendable, such as the medium-term orientation and the use of independent macroeconomic forecasts (Bos, 2008; IMF, 2006; European Commission 2010).

However, the Dutch government not only operates within the national framework, but also needs to comply with the requirements of the European Stability and Growth Pact (SGP). National budgetary rules play an important role for budgetary discipline and should be complementary to the Member States' commitments under the SGP. This was acknowledged in the Council Directive on budgetary frameworks (Council Directive 2011/85/EU), which states that "*national fiscal planning can be consistent with both the preventive and the corrective parts of the Stability and Growth Pact (SGP) only if it adopts a multiannual perspective and pursues the achievement, in particular, of the medium-term budgetary objectives*".

When the Maastricht criteria for the government debt and deficit came into play in the early 1990s, the Dutch government responded by aligning the national definition of the deficit as a policy objective with the newly created European one. The general government deficit is therefore in the Netherlands still referred to as the *'EMU-deficit'*. In the mid-1990s, the national framework was overhauled with the introduction of the trend-based budgetary framework, of which the *EMU-deficit* would remain an anchor. Since then, both the Dutch and European frameworks have evolved further. While the Dutch were quick to align the national budgetary targets with the European ones in the early years, later adjustments to the framework mostly reflected practical experiences and new theoretical insights that fitted within a national context. The enhanced focus of the SGP on the structural budget balance in the reform of 2005 and the innovations introduced with the subsequent reforms of the 'six-pack', the 'two-pack', and the Fiscal Compact have not dramatically reoriented the national framework. As a result, the Dutch government faces two frameworks whose budgetary objectives and rules might not be fully aligned.[3]

This is illustrated in Graph 2, which indicates whether the Netherlands met selected European and national budgetary reference values over the last two decades[4]. The first two rows refer to the 60% reference value for the debt-to-GDP ratio and the 3% limit for the deficit-to-GDP ratio. The third row indicates whether the structural budget balance met the medium-term objective (MTO)[5]. The Netherlands has currently set itself an MTO of -0.5% of potential GDP. Row four refers to the required annual fiscal effort of 0.5% of GDP for countries not at their MTO[6].

Graph 2: Meeting key fiscal reference targets – a schematic overview

	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16*
60% Debt/GDP	×	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	×	×	×	×	×	×	×
3% Deficit/GDP	✓	✓	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	×	×	×	×	✓	✓	✓	✓
MTO									✓	✓	✓	×	×	×	×	×	×	✓	×	✓
0.5% adjustment												×	×	×	×	✓	✓		×	✓
National ceiling	✓	✓	✓	✓	✓	×	×	✓	✓	✓	×	✓	×	×	×	✓	✓	✓	✓	✓

× = not respected
✓ = respected
(grey) = not relevant

Figures are based on notfied data published in the autumn forecast
Adherence to national ceiling is based on annual budget report.

* based on winter forecast 2017

Source: European Commission

The final line indicates whether the total national expenditure ceiling was respected, i.e. it does not imply that all three sub-ceilings (central government, social security and health care) were met.

In the early 2000s, the pre-defined expenditure ceilings were exceeded and, following a breach of the 3% of GDP deficit threshold, an *Excessive Deficit Procedure* (EDP) was opened in 2003. After a substantial consolidation effort the Netherlands met all objectives considered. However, the Netherlands missed the chance to build up sufficient fiscal buffers afterwards. Instead, the expenditure ceilings were breached again in 2007, mostly driven by higher-than-expected health care expenditure. When the international economic and financial crisis hit, it led to the breach of the 3% of GDP deficit threshold in 2009 and again an EDP was launched. Following fiscal consolidation, the excessive deficit was corrected in 2013, while the debt-to-GDP ratio remained just above the 60% threshold in 2016.

It is noteworthy that the Netherlands respected the national expenditure ceilings during the run-up to both breaches of the 3% threshold. Moreover, while national ceilings have been respected since 2014, this did not ensure consistent compliance with the MTO. An inherent weakness of the national framework appears to be to ensure a sufficient build-up of fiscal buffers in economic good times, often leading to procyclical fiscal policy (see also Homan and Suyker, 2015; Jacobs, 2007). This issue is expected to become even more relevant in the current context of increasing fiscal space. Overall, following the pre-agreed ceilings has not proven sufficient to stay within the European fiscal rules. The differences between the national and the European budgetary framework therefore deserve attention.

Comparison with the European framework

The Dutch and the European framework can be compared along three dimensions: The long-term, medium-term, and short-term perspective. This reflects that budgetary policy faces different challenges over different horizons. The government needs to ensure that budgetary policy is sustainable, i.e. current policy can be maintained in an ageing society without accumulating excessive debt in the long-run. The government also operates within a medium-term horizon, i.e. policy makers set goals in budgetary terms usually over the horizon of a government period. These medium-term objectives are operationalised in short-term (annual) budgetary objectives, such as the budget memorandum[7]. In the following subsections, differences and similarities between the two frameworks are assessed along these three dimensions. The exercise merely refers to the regulations under the preventive arm while the corrective arm is covered in a separate subsection.

Long-term perspective

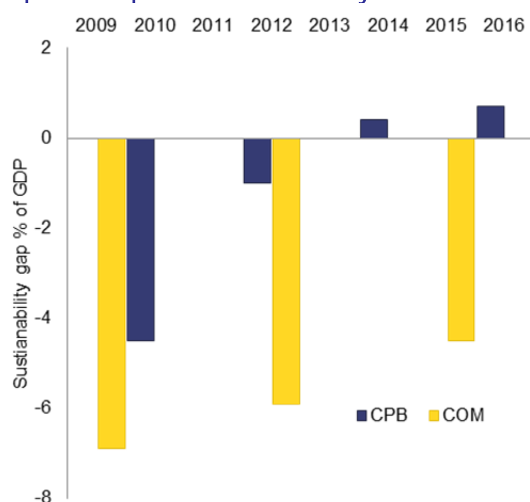
The ultimate objective of both frameworks is to safeguard the sustainability of public finances, which is the ability of a government to sustain its current spending, tax and other policies without threatening the government's solvency or without defaulting on some of the government's liabilities or promised expenditures. Within the Dutch budgetary framework the so-called *Houdbaardheidssaldo* or sustainability gap, calculated by the CPB, is an important reference point for the multiannual budget planning and builds the basis for the SBR's advice. A balanced or positive position implies that current policy can be sustained without increasing the government deficit and debt in the long-run. In case of a negative sustainability gap, the SBR would usually recommend taking consolidation measures over the next government period (Studiegroep Begrotingsruimte, 2010).

The European framework includes a similar sustainability indicator, which shows the required budgetary effort needed to stabilise the debt-to-GDP ratio in the very long-run while accounting for additional expenditure linked to an ageing society[8]. The indicator is used as a benchmark for assessing the Member States' annual Stability and Convergence Programmes. Moreover, the projected costs of ageing are also an input for the calculation of the minimum Medium-Term Objective (MTO), which, if achieved, is expected to ensure the long-term sustainability of public finances. At European level, the long-run budgetary projections are under the responsibility of the Economic Policy Committee's Ageing Working Group[9] in collaboration with the Commission services. These projections serve as an input for the Commission's Fiscal Sustainability Report (European Commission, 2016a), published every three years.

A comparison over recent years, given in Graph 3, shows substantial differences between the Dutch *Houdbaarheidssaldo* and the European long-term sustainability indicator. Whereas the 2016 calculations by the CPB reveal a notable improvement of the sustainability indicator since the post-crisis years to a positive 0.7% today, the European indicator improved only slightly, still

indicating a negative value of -4.5% (European Commission, 2016a).

Graph 3: Comparison of sustainability indicators



Source: European Commission, CPB

Smid *et al*. (2014) give a detailed explanation for these differences. The most relevant factor is that the national projection can include policy announcements or measures that are still to be implemented. The fiscal sustainability report is based on a no-policy-change assumption and requires a higher level of detail and credibility for measures to be included. In addition, there are some methodological differences. Notably, the commonly agreed EU methodology assumes a constant share of indirect tax revenues in terms of GDP, while the CPB projects an increase due to household de-saving (reduction of the savings surplus due to pension pay-outs). Finally, the EU and CPB projections can be based on different vintages of demographic projections.

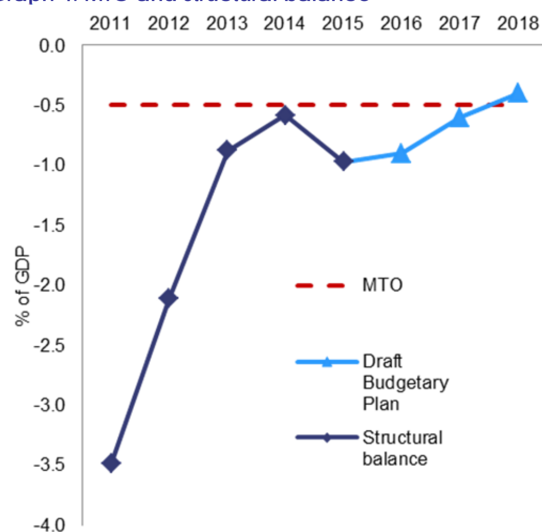
The SBR only uses the national sustainability gap as a starting point for the multiannual budget planning (Studiegroep Begrotingsruimte, 2016, p. 68), and thus only the national indicator feeds directly into the budgetary process, which could lead to a persistent divergence of policy objectives. Importantly, the national indicator may be too lenient, as it builds on behavioural assumptions about the consumption-saving decisions of future retirees, and it holds policy risks related to measures not yet implemented.

Medium-term perspective

At the European level, the medium-term objective (MTO) is an integral part of the preventive arm. It represents the country-specific budgetary objective defined as a target value for the structural balance[10].

The purpose of the MTO is threefold (Regulation (EU) No 1175/2011): First, it represents a safety margin towards the 3% of GDP deficit threshold, based on past economic volatility and budget sensitivity. If the government balance reacts strongly to the business cycle, a more prudent MTO is required. Second, the MTO ensures progress towards fiscal sustainability, as it takes into account the effort needed to stabilise or bring back debt to 60% of GDP, and to cover the cost of ageing. Higher anticipated costs of ageing would increase the sustainability gap and the MTO. Finally, the MTO allows room for budgetary manoeuvre, in particular with respect to public investment. Every three years, the Commission calculates a country-specific minimum MTO. The Member State then choses its MTO using the minimum MTO as a lower bound. Since the Netherlands is also a signatory country to the Fiscal Compact[11] it has committed to an MTO of at least -0.5% of GDP.[12]

Graph 4: MTO and structural balance



Source: European Commission

As can be seen in Graph 4, the structural budget position has improved notably since 2011[13]. In 2014, the Netherlands approached its MTO, but deviated again. According to the Draft Budgetary Plan, the Netherlands is projected to converge again towards its MTO, and once it is reached, the Netherlands would be required to stay at the MTO.

Through the *WetHOF*, the Netherlands has anchored its MTO in national law, which states that budgetary policy takes into account the recommendations by the European institutions for respecting the MTO. The law also mandates the Advisory Division of the Council of State (*Raad van State*) to monitor the compliance with the numerical fiscal rules, including the structural budget position. However, the

WetHOF does not operationalise further how the MTO should be included in the national budget planning, and the advice by the SBR suggests some leeway in approaching the MTO. On the one hand, the recent 15th SBR report noted that under unchanged policies the budget projection from the MLT could indicate a risk of a significant deviation from the MTO (Studiegroep Begrotingsruimte, 2016, p. 67). On the other hand, the report also acknowledged the important role of the national sustainability gap, which traditionally serves as a medium-term anchor. The SBR concluded that given the slightly positive sustainability gap, there is no need for further consolidation (Ibid, p. 69). This exemplifies how the current budgetary framework includes different objectives that are not aligned. While the Netherlands has committed to the European fiscal rules, the national 'sustainability challenge' leads to conflicting signals about the budgetary stance.

Even if a medium-term plan is fully compliant with the MTO ex-ante, it could deviate from the European requirements once the implementation of the annual budget has started. In the Netherlands, meeting the MTO is merely an outcome and not a target variable, as the annual budgetary process is focused on the national expenditure ceilings and the deficit target at the end of the government period, which are in principle not meant to be revised. In the European framework, however, the position towards the MTO is reassessed annually. As such, compliance with one set of rules does not ensure compliance with the other.

Short-term perspective

The short-term perspective refers to the annual budgetary objectives. In the Netherlands, this is closely linked to handling the real expenditure ceilings from the coalition agreement. Government expenditure is reviewed against the pre-defined ceilings, and the revenue side is allowed to fluctuate, while keeping an eye on the deficit target specified in the initial budget memorandum[14]. The Council of State is heard on the annual budget law and the assessment is made public.

In the European framework compliance with the fiscal rules is assessed annually by the European Commission. Member States that have not yet reached their MTO are expected to make sufficient progress towards it. As a benchmark, an annual adjustment[15] of 0.5% of GDP should be achieved, but the effort can be smaller in economic bad times and greater in good times[16]. Countries at their MTO should maintain their budgetary position and let automatic stabilisation work freely over the cycle. Since the introduction of the so-called six-pack, the European fiscal surveillance recognises two indicators for assessing the short-term budgetary position: The structural balance pillar measures the distance of the structural balance from MTO and the convergence towards it. The expenditure benchmark, which is becoming increasingly important, sets a reference rate for public expenditure growth based on the economy's potential growth rate (*medium-term reference rate*), net of discretionary revenue measures[17]. There is an important link between both pillars: The change in the cyclically adjusted government balance depends on how fast expenditure and revenue grow relative to potential GDP. Hence, following the expenditure benchmark also avoids deviating from the MTO. Countries that have not yet reached their MTO need to limit net expenditure growth below the potential growth rate (*convergence margin*). As such, the expenditure benchmark is grounded in the same principle as the Dutch trend-based fiscal policy, which is to keep control over the expenditure side and let the automatic stabilisers play their role on the revenue side. This ensures counter-cyclical fiscal policy.

Recently, a greater emphasis is being placed on the expenditure benchmark. The reason is that the structural balance is not observable and needs to be estimated from the data. This makes the structural balance difficult to estimate in real-time and works against the concept of medium-term planning. The greater emphasis on the expenditure benchmark offers a unique chance to align the national concept of expenditure rules with the European ones.

Thus, it is worthwhile to have a closer look at the expenditure rules. Table 2 gives an overview of key features of the national and European rules. Both the current system[18] and the SBR proposal are laid out. The main conceptual difference is that for the expenditure benchmark, the Commission evaluates real expenditure *growth* against the annually updated reference rate. Hence, the benchmark follows a 'rolling' approach, anchored in the economy's potential growth rate. The national system, however, is designed from the perspective of a 4-year government term and looks at expenditure *levels*, which are also based on an outlook of potential growth. Moreover, the national ceilings only apply to the central government, the social security and health sector, while the European expenditure benchmark covers general government expenditure in ESA 2010 terms. Thus, about 80% of total

government expenditure is covered by the national ceilings.

Besides these general conceptual differences, the frameworks differ in the treatment of specific budget items. The European expenditure benchmark excludes the cyclical share of unemployment benefit expenditure. This is because unemployment expenditure is typically sensitive to the business cycle and, at least in the short-run, not under the control of the government. As such, it is an important element of automatic stabilisation. In contrast, the national rules do not exclude cyclical unemployment expenditure, which implies the risk that cyclically-low unemployment expenditure could create fiscal room that is taken by other structural expenditures. The SBR therefore recommends excluding cyclical social expenditure[19]. Interest payments on government debt are currently excluded under both frameworks, but the recent SBR report recommends placing it under the ceilings, arguing that interest expenditure is not very sensitive to the business cycle. However, the main reason for excluding it is that interest payments are not directly influenced by the government.

Public investment in the national framework is not treated differently from other expenditure categories, while in the expenditure benchmark it is smoothed over four years to exclude the effects of the public investment cycle and the temporary impact of exceptionally large investment projects from the annual assessment.

Furthermore, the Dutch framework makes a strict distinction between the revenue and expenditure side. During the government's term, new discretionary revenue-increasing measures cannot be used to finance expenditure in excess of the ceilings. The expenditure benchmark in principle, allows for higher expenditure growth if this is financed by revenue-increasing measures.

An important budget item in the Netherlands is tax expenditure, which is defined as a reduction in tax revenue, but might appear equivalent to public expenditure. Currently, these sizeable budget items[20] are not covered by the expenditure ceilings, but fall on the revenue side. Contrary to the Dutch expenditure ceiling, the European expenditure benchmark corrects for changes in revenue resulting from fiscal policy measures, and therefore also for changes in tax expenditures.

The Dutch expenditure ceilings are defined in real terms, thus a deflator is used to translate the real into nominal ceilings for the annual budget. Currently, different deflators are used for the ceilings and actual public expenditure (national expenditure deflator and public consumption deflator, respectively), which can lead to windfalls or shortfalls. The SBR recommends using only private sector wage and price growth in order to avoid these unintended effects. The European expenditure benchmark uses a slightly different approach, i.e. nominal expenditure growth is deflated using the GDP deflator from the Commission's spring forecast of the preceding year. While the different concepts should not have substantial impact on the long-term path of public expenditure, the annual assessment of expenditure *growth* might be affected.

Summing up, the national system of expenditure ceilings and the expenditure benchmark are grounded in the same principle, namely that the government has more control over the expenditure than over the revenue side, and that expenditure policy should use underlying trend growth as a reference. However, conceptual differences remain. Some of the changes proposed by the SBR would bring the Dutch framework closer to the European one. Nevertheless, the national system does not guarantee that the European objectives are met. As long as the ceilings are not set in accordance with the ex-ante projected requirements, meeting the European objectives will in some cases be a matter of luck, rather than the result of applying national budgetary procedures.

Table 1: Overview of conceptual differences between the frameworks

	European framework	Dutch framework
Long-term	**Sustainability indictor** signals long-term challenges (based on common methodology).	A **different, potentially too lenient, indicator is used** to assess sustainability.
Medium-term	**Medium-term objective (MTO)** defines a target value for the structural budget balance.	MTO is anchored in national law, but **not fully embedded in all budgetary practices**.
Short-term	Annual (rolling) assessment of compliance with the MTO; **expenditure benchmark** is increasingly important.	National expenditure ceilings are fixed, **definitions and treatment of budget items not harmonised**.

Source: European Commission

Table 1 summarises the findings with regard to the Dutch framework and how it is aligned with the preventive arm of the SGP. First, long-term fiscal sustainability is assessed based on different indicators. Second, the MTO is anchored via the *WetHOF*, but it is not fully embedded in all national budgetary practices. Third, national ceilings and the European expenditure benchmark differ in the definition and treatment of certain budget items. Importantly, the objectives and benchmarks at European level are interlinked. Following the expenditure benchmark would lead to compliance with the MTO, which ensures a sustainable path in the long-run. This consistency is currently not reflected in the national framework.

The corrective arm

While the preceding considerations refer to 'normal' times, i.e. times without excessive deficits or debt levels, the Dutch framework also holds some general guidelines for the case of breaching the Maastricht criteria. In the past, the so-called signalling value would have triggered preventive measures before breaching the 3% of GDP deficit threshold. The signalling value was abolished in 2013, making the European deficit threshold the new reference for when corrective action would have to be taken. This was subsequently included in the *WetHOF*, which states that measures shall be taken in case the European deficit and debt thresholds are not respected, setting aside the trend-based framework. The required deficit reduction could in principle be linked to a structural effort as prescribed by the European rules.

At the European level, the *Excessive Deficit Procedure* (EDP) begins if a Member State either breaches or is at risk of breaching the 3% of GDP deficit threshold, or does not show sufficient progress in reducing its debt towards the 60% of GDP level[21]. When a Member State enters the EDP, it is given recommendations to adjust the excessive deficit or debt, and it has up to six months to take effective action. In practice, the European rules are more specific on the time warranted for a correction and the minimal annual fiscal adjustment required.

The Dutch framework does not imply competing rules, so that the required consolidation effort and the timing for taking measures are solely determined by the European framework. However, the Dutch framework could easily be expanded by operationalising a correction mechanism for the case of breaching of being at risk of breaching the deficit threshold.

Conclusion

This note discussed the current Dutch budgetary framework in light of the European fiscal rules. It showed that when compared along different dimensions, the frameworks do not appear fully aligned, which may lead to a dilemma for Dutch policy makers, who use the same policy instruments to fulfil different policy objectives.

There are possibilities to bridge the gap between the frameworks. The long-term sustainability assessment follows the same guiding principle, but leads to different outcomes due to different indicators. The national concept is potentially too lenient and could be aligned with the European framework by incorporating a no-policy-change assumption in the long-term projection. In addition, the MTO is formally anchored in national law, but more could be done to operationalise the objective in the budget planning. The current implementation of the real-expenditure ceiling renders the MTO merely an outcome rather than a target variable. Instead, ceilings could be set in a way to ensure a sufficient margin with respect to the MTO. Importantly, the move towards greater emphasis on the expenditure benchmark at European level opens up an opportunity for bringing the Dutch framework closer to the European one. For example, excluding cyclical items from the national expenditure rule could reduce the risk of procyclical fiscal policy.

In light of the currently increasing fiscal space in the Netherlands, these issues could appear less relevant at first sight, but, in fact, the insufficient build-up of fiscal buffers has contributed to the fiscal consolidation needs during the recent crisis. The preventive arm is designed to ensure automatic stabilisation and a certain degree of anti-cyclicality. Thus, the advantages of aligning the Dutch framework with the European fiscal rules are the same in the current cyclical context as during the recession.

This note has provided a first review. However, the analysis is non-exhaustive, and a further discussion could identify possible ways to align objectives in the Dutch and European framework, while preserving elements of the national framework that have proven to be successful in terms of budgetary transparency, control, and predictability.

Table 2: Comparison of national and European expenditure rules

	National expenditure ceilings		Expenditure benchmark
	Status quo	**SBR proposal**	
Benchmark	Multiannual real expenditure ceilings defined in coalition agreement for 4 years, in levels	No changes	Medium-term potential growth rate + convergence margin to MTO, updated annually
Coverage	Central government, social security, and health sector	No changes	General government (ESA 2010 definition)
Cyclical expenditure components	No exclusion of cyclical components (principle of maximum budget control)	Cyclical unemployment benefits and welfare payments excluded	Cyclical unemployment benefits excluded; calculated from NAWRU model; welfare not excluded
Interest expenditure	Excluded	Interest expenditure falls under the ceiling	Excluded
Tax expenditure	Not under expenditure ceiling, falls on the revenue side	No changes	ESA 2010 definition: "Non-payable" expenditures (no net payment) on revenue side; "payables" on expenditure side
Revenue increasing measures / quantification	Strict distinction between revenue and expenditure side; only static effects of measures are considered	Correction of ceilings according to "comply or explain" principle; first round behavioural effects considered	Revenue increasing measures are taken into account, incl. one-offs; direct behavioural effects are considered (within ESA category)
Natural gas revenues	Excluded	Non-tax gas revenues included on expenditure side; only quantity effect, no price effect	Non-tax gas revenues regarded as fiscal measure; only quantity effect, no price effect
Public investment	Included (via central government expenditure)	No changes	Included, but smoothed over 4 years
Deflator	Ceilings are first deflated, then translated back into nominal values using different deflators; leads to "*ruilvoet*"[22]	Ceilings are always indexed with private sector wage and price growth; no "*ruilvoet*"	Nominal expenditure growth is translated in real terms based on GDP deflator from Commission forecast

Source: European Commission

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[1] Please note that this does not assess in any way the compliance of the Dutch budgetary framework with the European rules, but rather analyses how the objectives of the frameworks are aligned.

[2] The CPB is an independent advisory body, formally attached to the Ministry of Economic Affairs, which plays a central role in the Dutch economic policy debate. It is responsible for evaluating the economic impact of different policy options and for making short and long-term economic forecasts.

[3] This does not imply non-compliance of the national framework with the legal requirements set in the fiscal compact, but rather refers to the implementation of national budgetary policy

[4] Note that this is a purely illustrative exercise that does not imply an ex-post assessment under the Maastricht Treaty and the Stability and Growth Pact.

[5] The structural balance is the headline balance corrected for the business cycle and one-off measures.

[6] This is an approximation of the required adjustment, as specified in the preventive arm 'matrix' in the so-called code of conduct for the Stability and Growth Pact, see Economic and Financial Committee (2016).

[7] This stylised distinction between the different horizons can be more complicated in reality. For example, it can be difficult to determine a priori whether a revenue windfall is permanent or temporary, but this can have very different implications for the long-term sustainability of the budget.

[8] More specifically, the S2 indicator shows the required adjustment of the structural primary balance needed to stabilise the debt ratio over an infinite horizon; see European Commission (2016a).

[9] This group consists of experts from the ECB, the European Commission, and the Member States.

[10] This excludes cyclical fluctuations and one-off measures

[11] The Fiscal Compact is part of the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*. The 22 contracting Member States are bound to anchor numerical fiscal rules in their national laws.

[12] The current MTO of -0.5% of GDP is effective until 2019, when a new update of the minimum MTO will be available.

[13] This is based on revised data.

[14] In the past, a safety margin (*Signaalmarge*) was implemented which was supposed to set a limit to budget fluctuations and would allow discretionary consolidation measures. It was abolished in the *Rutte II* coalition agreement.

[15] The adjustment is defined in cyclically adjusted terms, net of one-off and other temporary measures.

[16] As specified in the 'matrix', see Ecofin Council (2015).

[17] Also, government expenditure on EU programmes fully matched by EU funds and one-off expenditure measures are subtracted. For a detailed description of how the expenditure benchmark is calculated and applied, see European Commission (2016b).

[18] According to the *Rutte II* agreement.

[19] This brings the Dutch expenditure rules closer to the European framework, although differences remain: Cyclical unemployment is estimated by the Commission based on a NAWRU-model. The SBR proposal earmarks all changes in

unemployment as cyclical that are not linked to fiscal measures. Moreover, the expenditure benchmark does not exclude welfare payments (*bijstand*).

[20] Mortgage interest rate deductibility and deductibility of pension contributions alone added up to more than EUR 21 billion in 2016, or roughly 3% of GDP.

[21] The satisfactory pace for the debt reduction would be 1/20th annually, averaged over three years.

[22] "*Ruilvoet*" refers to expenditure shortfalls/windfalls that arise from the use of different deflators.

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