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Assessment of the 2016 Stability Programme for

The Netherlands

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses the Netherlands' April 2016 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on April 28 and covers the period 2015-2019. It was approved by the government and presented to the national parliament for a debate without a vote.

The Netherlands is currently subject to the preventive arm of the the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium term objective. As the debt ratio was 68.6% of GDP in 2013 (the year in which the Netherlands corrected its excessive deficit), exceeding the 60% of GDP reference value, the Netherlands is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark, during the three years following the correction of the excessive deficit. In this period it should ensure sufficient progress towards compliance. After the transition period, as of 2017, the Netherlands is subject to the debt reduction benchmark.

This document complements the Country Report published on 26 February 2016 and updates it with the information included in the Stability Programme. Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2016 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on the Commission 2016 spring forecast (hereafter called Commission forecast). Section 4 assesses compliance with the rules of the Stability and Growth Pact, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The projections used in the Stability Programme are based on the forecast of the CPB Netherlands Bureau of Economic Policy Analysis (Centraal Planbureau, CPB) and cover the period from 2015 until 2019[1]. Economic growth reached 2.0% of GDP in 2015 and is expected to temporarily slow down to 1.8% in 2016, before accelerating again to 2.0% in 2017. This is broadly in line with the Commission forecast, which foresees GDP growth of 1.7% in 2016 and 2.0% in 2017 (see Table 1).

According to the Stability Programme, domestic demand has taken over as the main driver of economic growth in 2015, with a contribution of 2.4 pps. Private consumption is projected to continue to grow at 1.6% in 2016 accelerating to 2.0% in 2017. Investment is expected to return to more sustainable growth rates in 2016 and 2017, with projected increases of 4.8% and 3.2% respectively. Higher real wages, better labour market prospects and a tax stimulus are foreseen to foster domestic consumption over the programme period. As a consequence,

[1] Some projected figures for 2015 have been updated by outturn data, as reported by Statistics Netherland (CBS).

domestic demand is forecast to remain the main growth driver, contributing 2.1 pps. to economic growth in 2016 and 1.6 pps. in 2017.

The Commission expects the main driving forces of growth to evolve similarly, but foresees a somewhat more negative contribution from net exports for 2016-2017 and a slightly more positive contribution from domestic demand.[2] Bigger differences stem from net lending/borrowing with the rest of the world, linked to the transfer of intellectual property rights worth EUR 32 bn into the Netherlands.[3]

Table 1: Comparison of macroeconomic developments and forecasts

	2015		2016		2017		2018	2019
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.0	2.0	1.7	1.8	2.0	2.0	1.9	1.8
Private consumption (% change)	1.5	1.6	1.6	1.6	1.9	2.0	1.3	0.9
Gross fixed capital formation (% change)	10.3	10.3	5.9	4.8	4.5	3.2	2.1	2.1
Exports of goods and services (% change)	5.3	4.2	4.5	3.6	4.4	4.1	4.1	4.2
Imports of goods and services (% change)	6.4	4.9	6.2	5.0	5.3	4.5	4.2	4.1
Contributions to real GDP growth:								
- Final domestic demand	2.6	2.4	2.1	2.1	2.0	1.6	1.2	1.1
- Change in inventories	-0.5	-0.6	0.3	0.2	0.1	0.2	0.3	0.2
- Net exports	-0.2	0.0	-0.7	-0.5	-0.1	0.2	0.4	0.5
Output gap[1]	-1.4	-1.5	-0.7	-0.9	0.0	-0.3	0.2	0.5
Employment (% change)	0.9	0.8	1.1	1.1	1.1	1.0	0.9	0.9
Unemployment rate (%)	6.9	6.9	6.4	6.5	6.1	6.3	6.2	6.1
Labour productivity (% change)	1.1	1.1	0.5	0.7	0.7	1.0	1.0	1.0
HICP inflation (%)	0.2	0.2	0.4	0.3	1.3	1.0	1.4	1.5
GDP deflator (% change)	0.4	0.5	1.1	1.1	1.1	0.9	1.4	1.5
Comp. of employees (per head, % change)	0.4	1.2	1.8	2.2	2.6	2.1	2.5	2.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	4.2	11.1	7.8	11.1	7.0	10.5	10.2	10.2

Note:

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

Source :

Commission 2016 spring forecast (COM); Stability Programme (SP).

Compared to the macroeconomic projection underlying the 2016 Draft Budgetary Plan, the most important changes have been made to the forecasts of economic growth and inflation.

[2] The macroeconomic scenario in the stability programme has slightly different assumptions on some key exogenous variables compared to the Commission forecast. For example, the latter assumes a higher oil price and lower interest rates over 2016-2017.

[3] The transaction is fully factored into the Commission forecast, but not into the SP projection; see http://www.dnb.nl/en/news/news-and-archive/statistisch-nieuws-2015/dnb326498.jsp.

The economic growth projection for 2016 has been revised downward by 0.6 pps., mostly driven by a downward revision of net exports. Moreover, consumer price inflation in 2015 and 2016 is now substantially lower than at the time of submission of the 2016 Draft Budgetary Plan.

The output gap, as recalculated by the Commission following the commonly agreed methodology, narrows continuously and turns positive in 2018 at 0.2% of GDP. The Commission forecast foresees an earlier closure of the output gap, already in 2017. The Stability Programme uses plausible macroeconomic assumptions. Risks to the forecast as mentioned in the Stability Programme come mainly from the external side via lower than expected world trade and increased financial market volatility.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1 Deficit developments in 2015

The general government budget deficit for 2015 came out at 1.8% of GDP. This is in line with the 2015 Stability Programme, but substantially better than the budgetary forecast from the 2016 Draft Budgetary Plan (2.2% of GDP in 2015). The revisions between the projections are related to a number of issues, of which the most important ones are briefly discussed in this section.

The revision of the projected government deficit by 0.4% of GDP in the 2016 Draft Budgetary Plan, compared to the 2015 Stability Programme, was mostly explained by a reduction in revenues from the production of natural gas. The government's decision to lower the annual production ceiling, combined with a substantial decline in the price of natural gas, has had a direct negative impact on fiscal revenues and lowered the headline balance by about 0.3% of GDP.

The positive surprise in the outcome compared to the 2016 Draft Budgetary Plan is due to several factors. In 2014, the government decided to make changes to the personal income tax system, but because of a delay in the implementation, actual monthly tax prepayments in 2014 were lower than implied by the new law. This was corrected through additional tax collection in 2015, the size of which was underestimated at the time of the DBP. These corrective payments led to an improvement in the headline balance of about 0.1% of GDP compared to the Draft Budgetary Plan. Additional windfalls came from the taxation of foreign savings accounts, with an effect of just under 0.1% of GDP, and higher-than-expected corporate tax collection, which explains another 0.1% of GDP of the difference.

3.2 Medium-term strategy and targets

The 2016 Stability Programme does not mention fiscal *targets* for 2016 and beyond as described in the Code of Conduct, but presents fiscal *forecasts* (based on a no policy change scenario). This difference between targets and forecasts is important, as the national fiscal framework requires the government to adhere to a well-established system of expenditure ceilings (see section 6).

The 2016 Stability Programme expects a budget deficit of 1.7% of GDP and a (recalculated) structural deficit of 1.4% of GDP (see Table 2). The Commission 2016 spring forecast also projects a budget deficit of 1.7%, but a slightly higher structural deficit of 1.5%. As the

headline projections are roughly similar, the difference in the structural balance is explained by different output gap projections.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2015	2016		2017		2018	2019	Change: 2015-2019
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**43.0**	**42.6**	**42.7**	**42.6**	**42.7**	**42.9**	**43.1**	**0.1**
of which:								
- Taxes on production and imports	11.2	11.2	11.3	11.3	11.3	11.4	11.5	0.3
- Current taxes on income, wealth, etc.	11.5	11.2	11.2	11.5	11.5	11.3	11.8	0.3
- Social contributions	14.7	15.0	15.0	14.7	14.7	15.2	14.9	0.2
- Other (residual)	5.6	5.3	5.3	5.1	5.1	5.0	4.9	-0.7
Expenditure	**44.9**	**44.3**	**44.4**	**43.7**	**43.9**	**43.3**	**43.0**	**-1.9**
of which:								
- Primary expenditure	43.7	43.2	43.2	42.6	42.7	42.4	42.1	-1.5
of which:								
Compensation of employees	8.8	8.9	9.0	8.9	8.9	8.8	8.6	-0.2
Intermediate consumption	6.0	5.8	5.7	5.9	5.7	5.6	5.6	-0.4
Social payments	22.0	21.5	21.3	20.9	20.9	20.9	20.9	-1.1
Subsidies	1.2	1.2	1.2	1.3	1.3	1.3	1.3	0.1
Gross fixed capital formation	3.5	3.3	3.3	3.3	3.2	3.2	3.1	-0.4
Other (residual)	2.2	2.5	2.6	2.4	2.8	2.6	2.6	0.4
- Interest expenditure	1.2	1.2	1.2	1.1	1.2	1.0	0.9	-0.3
General government balance (GGB)	**-1.8**	**-1.7**	**-1.7**	**-1.2**	**-1.2**	**-0.4**	**0.1**	**1.9**
Primary balance	**-0.6**	**-0.5**	**-0.5**	**0.0**	**0.0**	**0.6**	**1.0**	**1.6**
One-off and other temporary	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-1.8**	**-2.0**	**-2.0**	**-1.2**	**-1.2**	**-0.4**	**0.1**	**1.9**
Output gap[1]	-1.4	-0.7	-0.9	0.0	-0.3	0.2	0.5	1.8
Cyclically-adjusted balance[1]	-0.9	-1.2	-1.2	-1.2	-1.0	-0.5	-0.2	0.7
Structural balance[2]	**-0.9**	**-1.5**	**-1.4**	**-1.2**	**-1.0**	**-0.5**	**-0.2**	**0.7**
Structural primary balance[2]	0.3	-0.3	-0.2	-0.1	0.2	0.5	0.7	0.4

Notes:

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

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

Source :

Stability Programme (SP); Commission 2016 spring forecasts (COM); Commission calculations.

The current budgetary projections for 2016 are somewhat more negative than in the 2015 Stability Programme, which foresaw a headline deficit of 1.2%. As the growth forecast remained unchanged, the difference is mostly explained by lower revenues from the production of natural gas and by a shortfall in tax revenues linked to a package of tax cuts.[4] A

[4] While tax measures had been announced at time of submission, their budgetary impact was not specified or included in the 2015 stability programme.

smaller part of the difference is driven by additional expenditure on asylum seekers. The current projected budget deficit also exceeds the forecast from the autumn Draft Budgetary Plan of 1.5% of GDP, which took into account the tax stimulus. The difference is explained by lower gas revenues (0.1% of GDP), driven both by a further reduction in gas production and lower prices, and additional expenditure for sheltering asylum seekers (0.1% of GDP).

The Stability Programme plans a gradual improvement in the headline balance over the Programme horizon, from a deficit of 1.2% of GDP in 2017, to a slight surplus in 2019 (see Figure 1). The Commission's projection foresees the same headline deficit for 2017, the last year of the spring forecast horizon.

The government has reiterated its commitment to the MTO, a structural balance of -0.5% of GDP[5], which is in line with the requirements of the Stability and Growth Pact. According to the authorities' no-policy-change projection, i.e. taking their structural balance projection at face value, the MTO is expected to be met by 2019. Based on the recalculated structural balance, the MTO is forecast to be met in 2018. The Commission projects a structural balance of -1.2% of GDP at the end of the forecast horizon, which is slightly more negative than the -1.0% of GDP expected in the Stability Programme. Again, differences arise from different output gap assumptions.

Compared to the 2015 Stability Programme, the medium-term outlook shows a more positive macroeconomic environment with higher real GDP growth.[6] However, due to lower gas revenues and the tax-cut package, the headline deficit is somewhat higher over the medium-term than projected in the 2015 Stability Programme. Details on the tax package are given in section 3.3. Because of the higher GDP growth forecast, the output gap is now expected to turn positive by 2018, while the 2015 Stability Programme did not foresee a closing of the output gap. Based on the 2015 Stability Programme, Netherlands was expected to remain at its MTO over the programme horizon.

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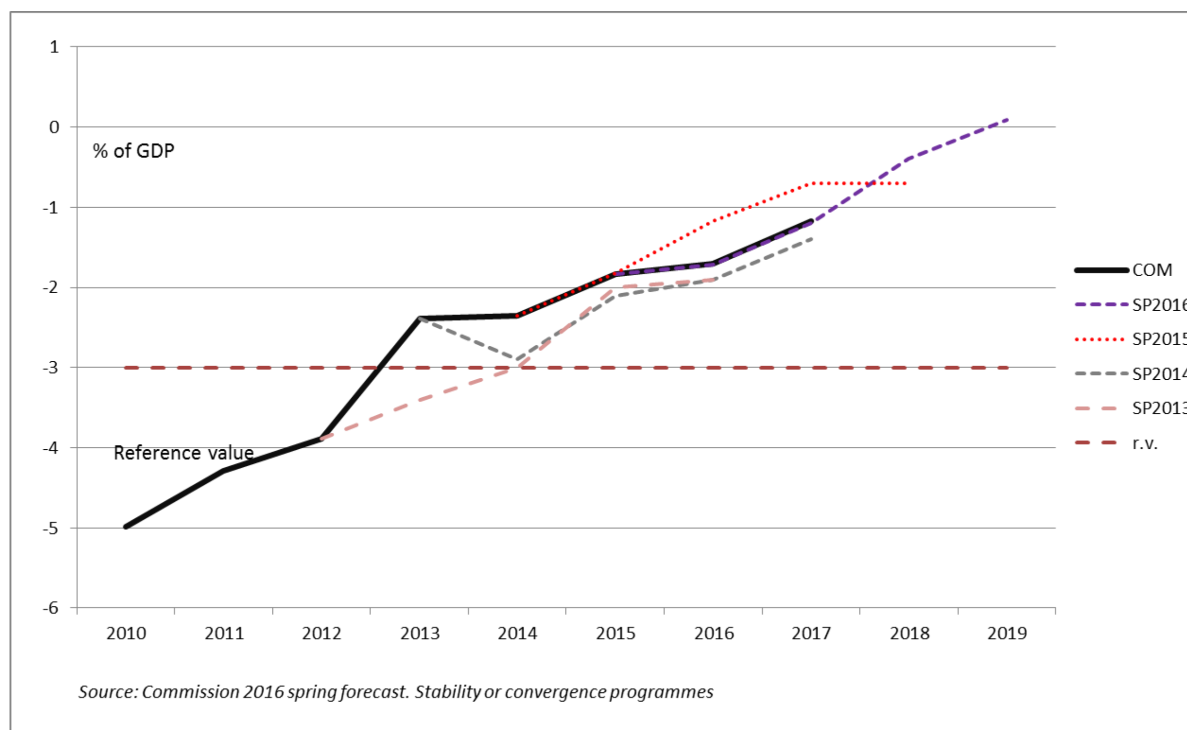
5 Whilst strictly speaking the structural balance is measured in percentage of *potential* GDP (not of actual GDP), the reference to the potential is left out throughout this document for reason of simplicity.

6 It has to be noted that figures for 2017 and 2018 in the 2015 stability programme are a technical extrapolation from most recent CPB's projection available at that time, which stem from November 2012.

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



3.3 Measures underpinning the programme

No new discretionary measures have been announced beyond what has already been listed in the Draft Budgetary Plan. The most important measures over the programme horizon stem from the so called 5-billion-package, which includes revenue-lowering measures of EUR 4.7 bn (0.7% of GDP) in 2016 in order to reduce the tax wedge on labour. The biggest elements of the package are the reduction of the tax rates in the second and third tax bracket by 2 pps., a raise of the income tax credit for earnings up to EUR 50,000, and a raise of the threshold for the top income tax rate.

The budgetary projection from the 2016 Stability Programme is based on a no-policy-change scenario, which does not take into account the strict national expenditure ceilings.[7] Therefore, the Stability Programme does not include an overview of the main budgetary measures to be taken on the revenue and expenditure side over the programme horizon. Such an overview would strengthen the credibility and improve the transparency of the Stability Programme. Measures included in the Draft Budgetary Plan, such as the tax package, have been included in the Commission forecast.

[7] In its assessment of the 2016 Stability Programme, the Council of State (*Raad van State*) notes that if the government takes measures in order to meet the national expenditure ceiling in 2016 and 2017, this would also ensure no significant deviation from the budgetary objectives under the preventive arm; see https://www.raadvanstate.nl/assets/begrotingstoezicht/Voorjaarsrapportage%20Begrotingstoezicht%202016.pdf

3.4 Debt developments

The Stability Programme reports total government debt at 65.1% of GDP in 2015 and projects a decline to 58.9% of GDP by 2019, which would imply compliance with the 60% of GDP Treaty reference value by the end of the Programme horizon. Debt projections from the successive Stability Programmes are given in Figure 2. Since the 2014 Stability Programme, the government has lowered its debt forecast notably.

The debt projection in the current Stability Programme exhibits a structural break as the 2015 figure is based on the actual figure as reported by the CBS, while the period 2016-2019 is based on the short- and medium term projection of the CPB. The latter assumed a higher budget deficit for 2015 than the outturn, thus total debt is projected to increase by 0.3 pps. to 65.4% of GDP in 2016.

The debt projection from the Commission 2016 spring forecast is based on the outturn for the headline deficit for 2015 and thus reports a decline to 64.9% of GDP in 2016 and to 64.1% of GDP in 2017. Differences with the Stability Programme arise because of different assumptions on stock-flow adjustments, specifically the privatisation of state-owned financial enterprises. The Stability Programme assumes successive privatisations of ABN Amro, a Dutch bank, and ASR, a Dutch insurance company, with expected cumulative proceeds of about 3.0% of GDP spread over 2015-2020.[8] The Commission regards the plans for privatisation as not sufficiently detailed with regard to the exact size and timing; hence such proceeds are excluded from the debt projection.[9] Nevertheless, the Commission forecast also foresees a decline in total debt, albeit at a slower pace than the Stability Programme.

[8] The proceeds are not mentioned under "Privatisation" but implicitly included in the total debt projection in Table 3.

[9] The first tranche, representing 23% of ABN Amro's total share capital, is included in the debt figures for 2015 in both the Commission forecast and the stability programme.

Table 3: Debt developments

(% of GDP)	Average 2010-2014	2015	2016		2017		2018	2019
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**64.6**	**65.1**	**64.9**	**65.4**	**63.9**	**64.1**	**61.6**	**58.9**
Change in the ratio	2.3	-3.1	-0.2	0.3	-0.9	-1.4	-2.4	-2.7
Contributions[2] *:*								
1. Primary balance	**2.0**	**0.6**	**0.5**	**0.5**	**0.0**	**0.0**	**-0.6**	**-1.0**
2. "Snow-ball" effect	**0.8**	**-0.4**	**-0.6**	**-0.6**	**-0.8**	**-0.7**	**-1.1**	**-1.0**
Of which:								
Interest expenditure	1.6	1.2	1.2	1.2	1.1	1.2	1.0	0.9
Growth effect	-0.3	-1.3	-1.1	-1.1	-1.2	-1.3	-1.2	-1.1
Inflation effect	-0.6	-0.3	-0.7	-0.7	-0.7	-0.6	-0.9	-0.9
3. Stock-flow adjustment	**-0.4**	**-3.4**	**-0.1**	**0.4**	**-0.1**	**-0.7**	**-0.8**	**-0.7**
Of which:								
Cash/accruals diff.				-0.2		0.0	0.0	-0.1
Acc. financial assets				0.7		-0.7	-0.8	-0.6
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual				-1.9		-1.9	-2.0	-1.9

Notes:

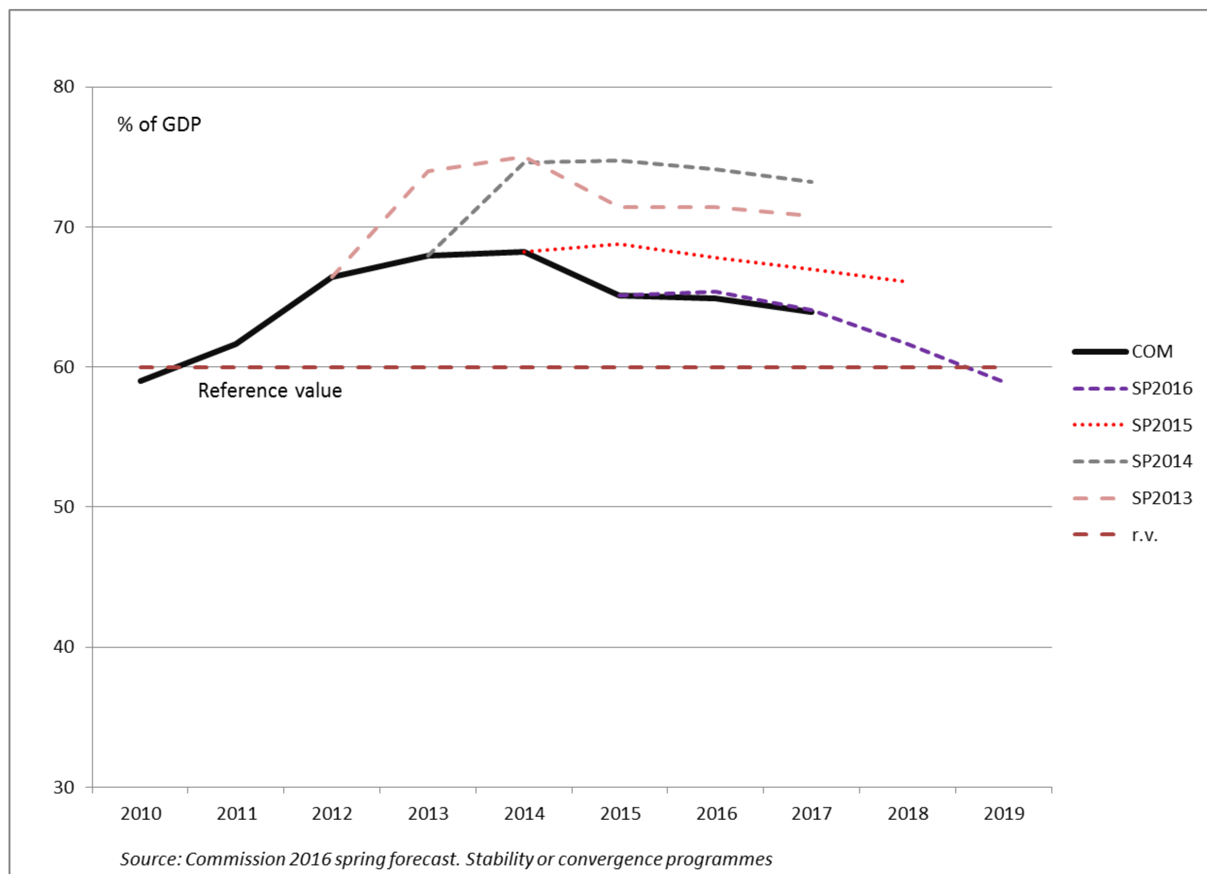
[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.

Figure 2: Government debt projections in successive programmes (% of GDP)[10]



3.5 Risk assessment

The Stability Programme does not foresee important changes to the 2016 budget, which is currently being implemented, and no new measures for 2017-2019 have been announced. However, the good track record of the Dutch budgetary discipline due to the well-respected multi-annual expenditure ceilings enhances the likelihood that additional consolidation measures will be taken.[11] Downward risks to the fiscal outlook stem from several factors. As a markedly open economy, a further slowdown in world trade is a risk to the Dutch economy, although the robust recovery of domestic demand renders these risks somewhat limited. Additional risks stem from the precarious situation of the pension funds, as the decline in the average pension funds' coverage ratio could lead to higher compulsory savings. A further increase in the premiums would affect the budget through the tax deductibility of premium payments. This could slow down the recovery and the projected consolidation. Larger-than-budgeted migration related expenditure, specifically long-term costs linked to integration, could worsen the fiscal outlook over the next years. Finally, there are further risks stemming

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[10] Comparing the forecasts from the different vintages is complicated by the (very sizeable) effect of the revisions of the national accounts in 2014 and the different consolidation packages that were agree upon during the crisis. "SF2012" refers to the stability programme of April 2012, the update from December 2012 is not included.

[11] See Section 6 for an assessment of compliance with the national expenditure ceilings and for a ballpark figure of possible consolidation measures needed to respect the ceilings.

from the production of natural gas, both from lower-than-projected prices and additional lowering of the production ceilings.

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

4.1 Compliance with the MTO or the required adjustment path towards the MTO

The Netherlands is currently subject to the preventive arm of the Stability and Growth Pact. It must preserve a sound fiscal position which ensures compliance with the medium term budgetary objective and compliance with the transitional arrangements of the debt reduction benchmark. After the transition period (from 2017 onwards) the Netherlands is expected to comply with the debt reduction benchmark. It also has to comply with the Country Specific Recommendation addressed by the Council in the context of the European Semester (see Box 1).

Box 1. Council recommendations addressed to the Netherlands

On 14 July 2015, 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 shift public expenditure towards supporting investment in R&D and work on framework conditions for improving private R&D expenditure in order to counter the declining trend in public R&D expenditure and increase the potential for economic growth.

In 2015, the structural balance deteriorated by 0.3% of GDP, in line with the maximum allowed deviation. The expenditure benchmark was met, with a margin of 1.1% of GDP.

The Stability Programme foresees a deterioration in the (recalculated) structural balance in 2016 of 0.6% of GDP, which points to some deviation (gap of -0.4% of GDP) from the requirement. By contrast, the expenditure benchmark is expected to be met with a margin of 0.1% of GDP. The Commission forecast implies the same structural deterioration in 2016, while the expenditure benchmark is also met. This calls for an overall assessment. The difference between the pillars is explained by a shortfall in gas revenues due to lower gas prices, which negatively affects the structural balance, and a one-off transaction, related to contributions to the EU budget, which positively affects the expenditure benchmark. Against this background, both pillars should be considered to show some deviation. Therefore, the overall assessment points to a risk of some deviation in 2016.

Over the years of 2016 and 2017 taken together, the (recalculated) structural balance points to a significant deviation (average annual gap of -0.3% of GDP) while the deviation of the expenditure benchmark points to some deviation (average annual gap of -0.2% of GDP). The Commission forecast expects the same structural deviation and slightly smaller deviation of the expenditure benchmark (-0.1% of GDP). Hence, an overall assessment is needed. The difference between the structural balance and the expenditure benchmark is again driven by a revenue shortfall and a one-off measure. The latter has an expenditure-decreasing effect in 2016. With respect to the expenditure benchmark, if the positive impact of the one-off measure in 2016 is excluded from the calculation, the increase in net expenditure still implies some deviation, according the Commission forecast. Consequently, the expenditure benchmark is considered to imply a risk of some deviation over the two-year horizon. The structural balance provides an overly negative picture. Correcting for the only partially permanent nature of the revenue shortfall, the structural balance pillar is considered to show some deviation. With both pillars giving the same conclusion after correcting for unduly

effects, the overall assessment points to the risk of some deviation from the MTO over 2016 and 2017.

Table 4: Compliance with the requirements under the preventive arm

(% of GDP)	2015	2016		2017	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-0.9	-1.5		-1.2	
Structural balance based on freezing (COM)	-0.3	-1.5		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		Not at MTO	
(% of GDP)	**2015**	**2016**		**2017**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.0	0.0		0.6	
Required adjustment corrected[5]	-0.3	-0.2		0.6	
Change in structural balance[6]	-0.3	-0.6	-0.6	0.4	0.3
One-year deviation from the required adjustment [7]	0.0	-0.4	-0.4	-0.2	-0.3
Two-year average deviation from the required adjustment [7]	0.1	-0.2	-0.2	-0.3	-0.3
Expenditure benchmark pillar					
Applicable reference rate[8]	1.4	1.2		-0.6	
One-year deviation [9]	1.1	0.1	0.1	-0.4	-0.3
Two-year average deviation [9]	0.7	0.6	0.6	-0.2	-0.1
Conclusion					
Conclusion over one year	Compliance	Overall assessment	Overall assessment	Overall assessment	Overall assessment
Conclusion over two years	Compliance	Overall assessment	Overall assessment	Overall assessment	Overall assessment

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 2014) is carried out on the basis of Commission 2015 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 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 :

Stability Programme (SP); Commission 2016 spring forecast (COM); Commission calculations.

4.2 Compliance with the debt criterion

The Netherlands is in a transition period and, according to the Stability Programme, it is expected to make sufficient progress towards compliance with the transitional arrangements for the debt benchmark in both 2015 and 2016 (see Table 5). In 2015, the structural adjustment was considerably above the required effort (gap of 1.2% of GDP). According to the Stability Programme, the recalculated structural effort will also exceed the requirement in 2016 (gap of 4.5% of GDP) and thus the Netherlands are projected to make sufficient progress towards compliance. The Commission forecast for 2016 leads to the same conclusion (gap of 2.8% of GDP).

In 2017, after the end of the transition period, the Netherlands is required to comply with the debt benchmark. This is foreseen in both the Stability Programme (gap of -4.4% of GDP) and the Commission forecast (gap of -1.5% of GDP)

Table 5: Compliance with the debt criterion

	2015	**2016**		**2017**	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**65**	**65.4**	**64.9**	**64.1**	**63.9**
Gap to the debt benchmark [1,2]	n.r.	n.r.	n.r.	-4.4	-1.5
Structural adjustment [3]	-0.3	-0.6	-0.6	0.4	0.3
To be compared to:					
Required adjustment [4]	-1.5	-5.1	-3.4	n.r.	n.r.

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.

5. FISCAL SUSTAINABILITY

The Netherlands does not appear to face fiscal sustainability risks in the short run according to the S0 indicator.

Based on the Commission forecast and a no-fiscal policy change scenario beyond forecasts, government debt is projected to decrease from 65.1% of GDP in 2015 to 57.9% of GDP in 2026, thus falling below the 60% of GDP Treaty threshold. This implies low risks for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would lead to a steeper decline in government debt, also remaining below 60% of GDP in 2026.

The medium-term fiscal sustainability risk indicator S1 stands at 0.2% of GDP, driven both by the initial budgetary position and the level of government debt. This indicates medium risk in the medium term. The full implementation of the Stability Programme would put the S1 indicator at -1.1% of GDP, implying low sustainability risk over the medium-term.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is on a sustainable path) is at 4.1% of GDP. This indicates medium sustainability risk over the long-term, with sustainability risks coming mainly from the projected costs of ageing, in particular long-term care expenditure. Full implementation of the Programme would not change the risk assessment according to the S2 indicator.

Table 6: Sustainability indicators

Time horizon				No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term				**LOW risk**			
S0 indicator [1]				0.2			
	Fiscal subindex (2015)			0.2	LOW risk		
	Financial & competitiveness subindex (2015)			0.2	LOW risk		
Medium Term				**MEDIUM risk**			
DSA [2]				LOW risk			
S1 indicator [3]				0.2	MEDIUM risk	-1.1	LOW risk
of which							
	IBP			0.2		-0.8	
	Debt Requirement			0.3		-0.1	
	CoA			-0.3		-0.2	
Long Term				**MEDIUM risk**		**MEDIUM risk**	
S2 indicator [4]				4.1		3.5	
of which							
	IBP			1.8		1.0	
	CoA			2.3		2.5	
	of which						
		Pensions		0.1		0.2	
		HC		0.7		0.6	
		LTC		2.7		2.6	
		Other		-1.2		-0.9	

Source: Commission services; 2016 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2016 forecast until 2017. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections. See Fiscal Sustainability Report 2015.

[3] The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2017) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

[4] The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

6. FISCAL FRAMEWORK

In the Netherlands, budget making is inter alia constrained by numerical fiscal rules embedded in the Law on the Sustainability of Public Finances (*Wet houdbare overheidsfinanciën – Wet HOF),* with reference to the MTO set in structural terms, the annual deficit limit and the annual debt limit of the Economic and Monetary Union. Expenditure and revenue ceilings set for a whole government term are also a major component of the Dutch national fiscal framework. As the numerical rules directly refer to the rules of the SGP, the assessment of compliance with the national rules is identical to the assessment presented in section 4.1 and 4.2. In a nutshell, based on the information provided in the Stability Programme, the past, planned and forecast fiscal performance in the Netherlands appears to broadly comply with the requirements of the applicable national numerical fiscal rules.

In the Netherlands, the Advisory Division of the Council of State is the designated body responsible for the independent monitoring of compliance of budget planning and execution with the numerical fiscal rules. In its spring assessment[12], the Advisory Division concludes that the 2015 executed budget did not fully comply with the numerical fiscal rules. In terms of forward-looking assessment, it concludes that the Dutch structural balance will not comply with the rules in 2016 and 2017, and that the expenditure benchmark will not be met in 2017. In addition, regarding expenditure and revenue ceilings, it takes note of Government's intention to respect the already set ceilings in order to comply with the requirements of the preventive arm of the SGP. However, it indicates that it cannot deliver an assessment of this intention due to insufficient information on how to accomplish this in a concrete manner. It nevertheless acknowledges that an effort to respect the ceilings would indeed prevent a significant deviation. It refers to the CPB's CEP March projections of an overspending of EUR 1.7 bn in 2016 and EUR 2.7 bn in 2017[13] and a room for EUR 1.2 bn on the revenue side in 2017 (requiring an effort of EUR 3.9 bn in 2017). It considers that further risks are mainly seen on the downside, coming from (international) business cycle shocks, which reinforces the need for more room for fiscal manoeuvre.

The Stability Programme states that it serves as the national medium term fiscal plan according to Art. 4 of Regulation 473/2013. As such, it is required to include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. However, neither the Stability Programme nor the national reform programme contains such indications.

The macroeconomic forecast underlying the Stability Programme was prepared by the Netherlands Bureau for Economic Policy Analysis (CPB). While the CPB is a government body, it enjoys complete operational freedom, formally guaranteed by law[14]. The government traditionally uses the CPB's macroeconomic forecast to present the budgetary and economic effects of planned measures. This established practice has been formalised in 2013 by virtue of the Wet HOF.

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[12] See https://www.raadvanstate.nl/assets/begrotingstoezicht/Voorjaarsrapportage%20Begrotingstoezicht%202016.pdf

13 This overspending is, according to the Advisory Division's spring assessment, "mainly caused by the fact that expenditure ceilings are indexed by a lower percentage than the upward pressure arising from specific wage and price adjustments of public expenditure"

[14] The law *Wet houdende de voorbereiding van de vaststelling van een Centraal Economisch Plan* from 1947 gives the CPB the legal basis for its operations. The law *Aanwijzing op de Planbureaus* from 2012 codifies the independence of the CPB.

7. CONCLUSIONS

In 2015, the Netherlands is in line with the requirements under the preventive arm of the SGP, based on both the expenditure benchmark and the structural balance pillar.

The Stability Programme foresees some deviation of both the (recalculated) structural balance and the expenditure benchmark from the recommended adjustment in 2016. The same deviation is foreseen in the Commission forecast. Based on an overall assessment, there is a risk of some deviation from the MTO.

Over the two year horizon 2016-2017, the (recalculated) structural balance points to a significant deviation, while some deviation is foreseen for the expenditure benchmark. This is in line with the Commission forecast. The overall assessment points to the risk of some deviation over 2016 and 2017 taken together.

The planned adjustment is in line with the required minimum linear structural adjustment in 2016 under the transitional debt rule. The debt benchmark is planned to be met after the end of the transition period, in 2017. The same conclusion is reached based on the Commission forecast.

8. ANNEX

Table I. Macroeconomic indicators

	1998-2002	2003-2007	2008-2012	2013	2014	2015	2016	2017
Core indicators								
GDP growth rate	3.2	2.3	0.0	-0.5	1.0	2.0	1.7	2.0
Output gap [1]	1.1	-0.8	-1.3	-3.1	-2.5	-1.4	-0.7	0.0
HICP (annual % change)	3.0	1.7	1.9	2.6	0.3	0.2	0.4	1.3
Domestic demand (annual % change) [2]	3.3	1.9	-0.4	-1.8	0.6	2.5	2.6	2.3
Unemployment rate (% of labour force) [3]	4.0	5.1	4.8	7.3	7.4	6.9	6.4	6.1
Gross fixed capital formation (% of GDP)	22.5	21.0	20.5	17.9	18.2	19.5	20.3	20.8
Gross national saving (% of GDP)	28.1	29.2	28.4	29.1	28.8	28.3	29.0	28.8
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.2**	**-0.9**	**-3.7**	**-2.4**	**-2.4**	**-1.8**	**-1.7**	**-1.2**
Gross debt	**53.8**	**46.9**	**59.6**	**67.9**	**68.2**	**65.1**	**64.9**	**63.9**
Net financial assets	**-30.8**	**-29.1**	**-31.6**	**-39.6**	**-43.3**	**n.a**	**n.a**	**n.a**
Total revenue	43.0	42.3	43.1	44.0	43.9	43.0	42.6	42.6
Total expenditure	43.3	43.2	46.8	46.4	46.2	44.9	44.3	43.7
of which: Interest	3.4	2.2	1.8	1.5	1.4	1.2	1.2	1.1
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**4.9**	**9.4**	**10.1**	**9.8**	**9.5**	**3.6**	**6.8**	**5.9**
Net financial assets; non-financial corporations	**-211.6**	**-152.4**	**-97.6**	**-78.6**	**-73.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**9.5**	**17.8**	**-2.0**	**-3.6**	**-2.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.1	9.9	10.8	10.1	10.3	11.0	11.9	12.4
Gross operating surplus	25.2	27.1	28.4	28.5	27.9	28.6	28.9	28.9
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**0.5**	**-0.9**	**0.9**	**3.2**	**3.5**	**2.4**	**2.7**	**2.3**
Net financial assets	**149.3**	**129.9**	**142.5**	**165.7**	**197.9**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	39.8	38.1	38.3	38.3	37.7	38.0	37.9	38.1
Net property income	6.3	5.6	5.5	6.7	6.9	6.8	7.3	7.2
Current transfers received	21.8	21.2	20.9	22.4	22.3	21.9	21.3	20.7
Gross saving	7.7	6.7	6.7	7.4	7.8	7.0	7.6	7.4
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**5.1**	**7.6**	**7.3**	**10.7**	**10.7**	**4.2**	**7.8**	**7.0**
Net financial assets	**85.6**	**35.5**	**-8.4**	**-41.2**	**-76.0**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	6.3	8.2	8.5	11.0	11.4	11.2	10.8	10.3
Net primary income from the rest of the world	0.7	1.4	0.6	2.0	1.3	0.0	-0.1	-0.1
Net capital transactions	-0.1	-0.3	-0.3	-0.4	0.1	-5.0	-1.2	-1.2
Tradable sector	42.2	40.8	39.1	39.3	39.1	39.0	n.a	n.a
Non tradable sector	47.3	48.5	50.9	50.8	50.9	50.9	n.a	n.a
of which: Building and construction sector	4.8	4.9	4.9	4.1	4.1	4.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	91.7	97.9	100.9	101.9	102.0	97.6	98.5	98.8
Terms of trade goods and services (index, 2000=100)	99.0	100.4	99.6	98.8	99.3	100.1	101.2	101.0
Market performance of exports (index, 2000=100)	100.1	98.4	100.0	103.1	103.0	103.0	103.4	102.8

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
AMECO data, Commission 2016 spring forecast