Draft Budgetary Plan of the Netherlands

Autumn 2019

Table of Contents

Introduction

In this Draft Budgetary Plan, the government presents its economic and budgetary prospects. The European Commission and European Council use this Draft Budgetary Plan to assess whether the Netherlands is compliant with the requirements of the Stability and Growth Pact (SGP), which contains the European budgetary rules.

The Rutte III government decided on a package of investments in education and safety, among others, and to limit the tax burden on households. At the same time, the government maintains sound public finances. There is currently a budget surplus, government debt is declining further, and the structural government balance is above the medium-term budgetary objective (MTO). The government is committed to the European budgetary rules, and with these prospects it complies with the requirements of the preventive arm of the SGP.

The economic and budgetary prospects in this report are based on the most recent 2020 Macroeconomic Outlook (Macro-Economische Verkenning 2020, MEV) by the Netherlands Bureau for Economic Policy Analysis (CPB) and the 2020 Budget Memorandum (Miljoenennota 2020). A more detailed explanation on the government's policy plans is available in the 2020 Budget Memorandum.

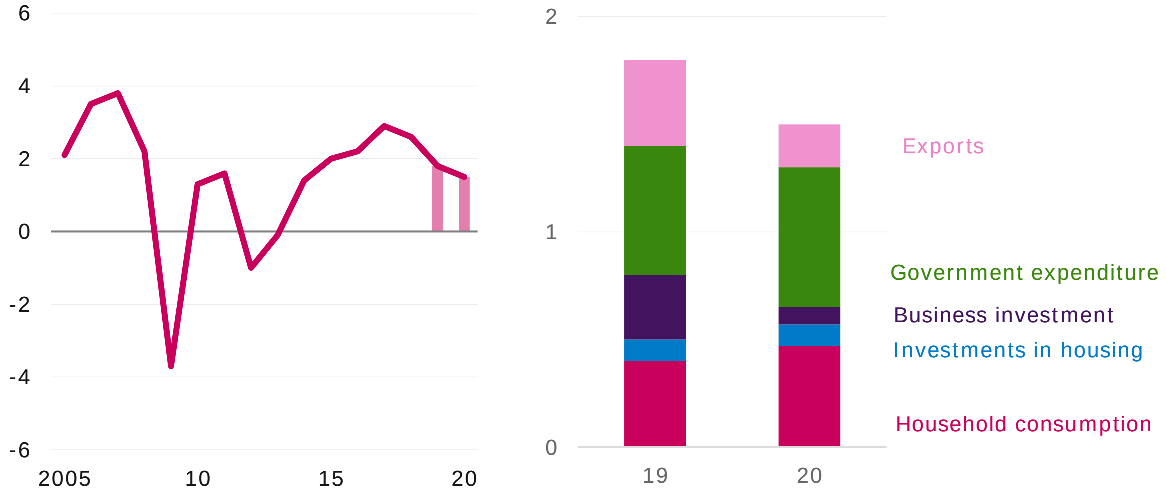
1. Macroeconomic forecast

So far, the Dutch economic outlook is still positive. Despite the less favourable international environment, the Dutch economy will continue to grow in the coming period, but at a more moderated pace than before. GDP will increase by 1.8% and 1.5% per annum respectively in 2019 and 2020. This is lower than the growth rate of the past few years, but the economic situation remains positive. It is currently expected that 2020 will be the seventh year in a row with economic growth. In contrast to previous years, growth is mainly internally driven, particularly by household consumption and government spending. Exports are set to grow less than before, as is the case for investments in housing and by businesses.

The labour market is still tight. That is apparent in various ways. For example, unemployment is currently very low. It is expected that unemployment will increase slightly to 3.5% in 2020, but that too is an historically low level. The number of job vacancies reached a record high at the beginning of 2019. The number of jobs continues to grow in 2019 and 2020, a total of 160 thousand additional people will start working. That is positive news for all those who recently found work or are still on the hunt. Not everyone enjoys the benefits yet; there are still more than 100,000 people who have been unemployed for more than a year. Although, from an international perspective, the Netherlands has a high share of flexible workers and self-employed, the economic cycle also has an impact on the flexibility of the labour market. More and more people are getting a permanent instead of a flexible job.

Wage development is currently modest in light of the tight labour market. Contract wages (in the market sector) are expected to increase by 2.5% in both 2019 and 2020. In 2019 that is even slightly less than the rate of inflation, which is higher this year due to increased indirect taxation (increase of the lower VAT rate and energy related taxes). Inflation will decrease next year, but wages will continue to grow, resulting in an increase of real wages.

Figure 1.1 Domestically-driven economic growth (in %)



Source: CPB, Netherlands Bureau for Economic Policy Analysis.

The economic cycle seems to have passed its peak. In a technical sense, the Dutch economy is still in a positive phase of the economic cycle, with a positive output gap. Based on the EC methodology, the Netherlands Bureau for Economic Policy Analysis (CPB) estimates that the Netherlands will have an output gap of +1.0%[1] of potential GDP in 2020. The high point of economic growth seems to have passed however. After years of relatively high growth the economy returns to potential growth. Despite the slower pace of growth, the economic situation is still favourable: unemployment remains historically low, employment and purchasing power are expected to increase further.

Although the economic outlook is healthy, there are significant risks. There is still uncertainty about Brexit. An orderly exit by the United Kingdom from the EU is and remains a priority for both the Dutch government and the EU. A no-deal scenario, though, is a real option.

[1] This figure may differ from the output gap as projected by the CPB with its own methodology.

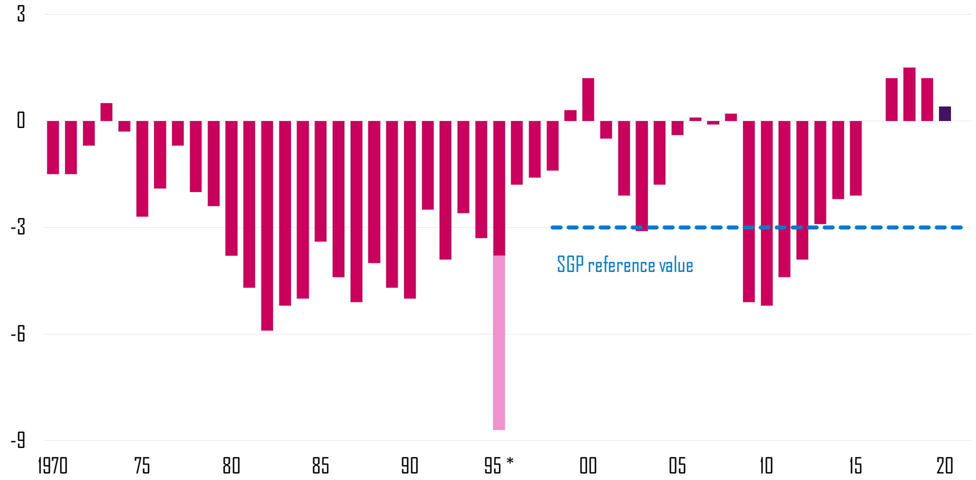
The government is trying to prepare for this scenario as well as possible. The economic relationship with the UK is important to the Netherlands: Dutch export earnings are only higher in Germany. World trade is also under pressure. Protectionist measures such as tariffs, breaking up of global value chains and forced job relocations have an impact on the global economy. Aside from trade tensions, other geopolitical developments also influence the economy

Domestic risks could also lead to reduced growth. If wage growth falls short of expectations, households have less to spend than expected. Economic sentiment is also difficult to predict; consumer confidence has worsened since the end of 2018. This shows that households have less positive expectations about the economy and it is unclear how this will develop in the future. In the past, a turnaround in sentiment was often a sign of a reversal of the economic cycle. Finally, the housing market is a cause of uncertainty. A sudden drop of housing prices would be reflected in economic growth and the sentiment of households.

2. Budgetary targets

In the years ahead, Dutch public finances are in good shape. For 2019, the Netherlands expects a budget surplus for the fourth year in a row. This is expected to be 1.3% of GDP. Such a long period of surpluses has not been seen since the first half of the 1950s. However, the surplus will reduce in the coming year, as shown in figure 2.1. For 2020 a surplus of 0.2% of GDP is expected, but budget deficits are estimated as from 2021. At the time of the coalition agreement, a small surplus was still expected here. The balance is less favourable than the previous estimate due to the tax revenue and social contributions being lower than estimated at the time and, to a lesser extent, due to the Pension Agreement and Climate Agreement.

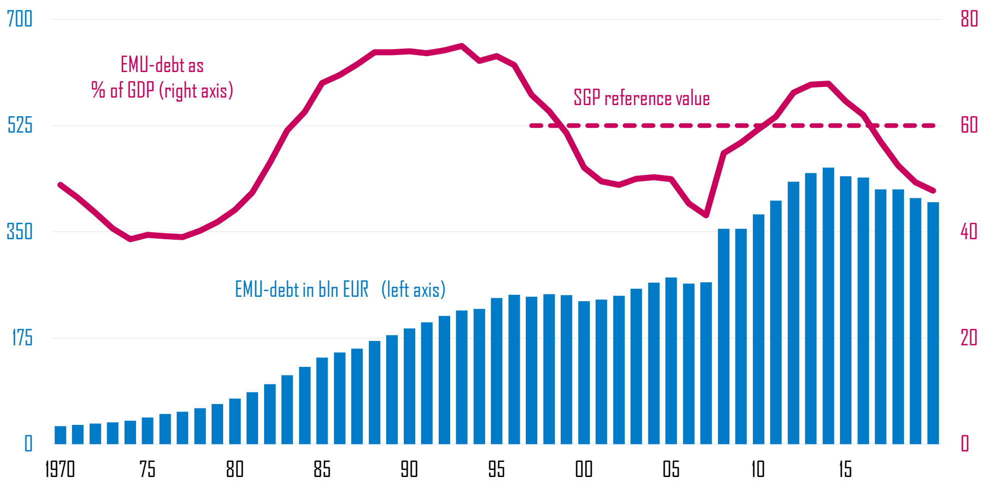
Figure 2.1 General government balance (% of GDP)



Source: Statistics Netherlands, CPB, Ministry of Finance
** The 1995 general government balance is distorted by a one-off balance tax of 4.9% of GDP due to a decrease in the balance sheet total between the State and housing corporations in that year.*

Government debt will drop below 50% of GDP. The Dutch general government debt has dropped continuously in recent years. This is the result of the well-performing economy, measures which were taken during the crisis, and the pursued budgetary policy. In the coming years, Dutch debt will drop further, and debt is expected to reach 47.7% of GDP in 2020. In the forthcoming period, research will be conducted into possible additional investments to benefit the structural earning capacity of the Dutch economy. If this is financed through additional debt, government debt will rise compared to the figures presented in this report.

Figure 2.2 General government debt



The Netherlands complies with European budgetary rules. In the Stability and Growth Pact (SGP), Member States of the European Union laid down the requirements to which public finances must be compliant. These arrangements are aimed at ensuring sound public finances of Member States, in both the short and in the long term. The agreements consist of a so-called corrective and preventive arm. The rules in the corrective arm are a general government debt of maximally 60% of GDP (or a general government debt that decreases at a sufficient pace) and an EMU-budget deficit of 3% of GDP maximum. The Netherlands is compliant with these requirements.

For Member States in the preventive arm of the SGP, which includes the Netherlands, the medium-term budgetary objective (MTO) and the expenditure benchmark are also of importance. For the years ahead, the Netherlands has an MTO of -0.5% of GDP for the structural government balance. The structural government balance is the general government balance adjusted for the position in the economic cycle and one-off expenditures and revenues. In 2020 a deficit of 0.4% of GDP is expected for the structural government balance. In 2020, the Netherlands therefore has a limited margin to the reference value of -0.5%. The expenditure benchmark, which indicates that net government expenditure may not grow faster than the potential medium-term economic growth, in principle only applies for Member States which do not comply with their MTO. Nevertheless, the Netherlands complies with this expenditure benchmark. In November of this year, the European Commission will express its opinion on the Dutch budget. As the Netherlands is currently in a favourable economic situation, the structural government balance is smaller than the "normal" budget balance (the actual general government balance); see Table 2.1. The deterioration of the structural government balance indicates that Dutch budgetary policy is currently pro-cyclical, in other words, the government is spending extra money in good times. This is the result of the government's choice to invest and to reduce the tax burden.

Table 2.1 Structural government balance

(in % of GDP)	2018	2019	2020
General government balance	1.5	1.3	0.2
+ *Business cycle component*	-0.5	-0.7	-0.6
+ *One-off measures*	0.0	-0.2	0.0
= Structural government balance	**1.0**	**0.5**	**-0.4**

The amount of government guarantees remains stable, but counter-guarantees continue to rise. A guarantee is a commitment by the State to pick up the costs incurred by a third party when a certain risk materialises. Hence guarantees and the damages which could possibly derive from them, are a risk for public finances. For that reason, the government cautiously deals with these via the 'No, unless' policy. In addition, recipients of a guarantee must pay risk premiums, which the government uses to fund provisions against risks. This has resulted in the amount of guarantees remaining stable over the past few years. The majority of these guarantees stem from international agreements, such as guarantees linked to the European debt crisis, international development banks, and the International Monetary Fund (IMF). The amount of the so-called counter-guarantees, in which the government acts as a backstop, however, grew significantly. This growth is entirely due to growth of the Homeownership Guarantee Fund (WEW), which implements the National Mortgage Guarantee Scheme (NHG). The upswing in the housing market leads to more mortgages being granted with a National Mortgage Guarantee (*NHG*). Since the crisis, measures have been taken concerning the Homeownership Guarantee Fund (*Waarborgfonds Eigen Woning, WEW*) aimed at better risk management and, in particular, improvement of the *WEW* capital ratio (the ratio between equity capital and the guaranteed mortgages). As a result, the *WEW* now has more financial buffers, so that it is less likely to rely on the State as a backstop for the fund.

The sustainability balance shows how future-proof current policy is. To review the sustainability of government policy and the distribution of government benefits between generations in the long term, the CPB calculates the sustainability balance. Policy is sustainable when current government provisions can be maintained in the future without the need to increase taxation or social security contributions or to reduce expenditure. A sustainability gap implies that measures are needed in time (lower expenditure or higher revenues) to prevent government debt from continuing to rise in the long term. The last estimate of this sustainability balance, made at the time of the Coalition Agreement, implied the Netherlands had a sustainability gap of about 0.4% of GDP. That estimate, however, is no longer up to date. In December, the CPB will present a new report on sustainability, which includes a review of the model used.

3. Expenditure and revenue projections under the no-policy scenario

The following table shows the total expected government revenue and expenditure based on implementation of the 2020 Budget Memorandum.[2]

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components.

General government (S.13)	ESA Code	2019 % of GDP	2020 % of GDP
1. Total revenue at unchanged policy	TR	43.8	43.2
of which			
1.1. Taxes on production and imports	D.2	12.0	12.1
1.2. Current taxes on income, wealth, etc.	D.5	12.9	12.3
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	14.1	14.2
1.5. Property income	D.4	0.8	0.7
1.6. Other		3.7	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.2	38.8
2. Total expenditure at unchanged policy	TE	42.5	42.9
of which			
2.1. Compensation of employees	D.1	8.3	8.4
2.2. Intermediate consumption	P.2	6.0	6.1
2.3. Social payments	D.62	20.6	20.8
of which Unemployment benefits	D.632	1.4	1.3
2.4. Interest expenditure	D.41	0.7	0.6
2.5. Subsidies	D.3	1.2	1.3
2.6. Gross fixed capital formation	P.51	3.3	3.4
2.7. Capital transfers	D.9	1.0	0.7
2.8. Other		1.6	1.6

[2] These figures are based on the 2020 Macroeconomic Outlook (*MEV*). As the figures in chapter 2 are based on the 2020 Budget Memorandum, there may be a slight difference.

4. Expenditure and revenue targets

The tables below give a more detailed view of the projected general government expenditures and revenues in 2019 en 2020.[3]

Table 4.a General government expenditure and revenue targets, broken down by main components.

General government (S.13)	ESA Code	2019 % of GDP	2020 % of GDP
1. Total revenue at unchanged policy	TR	43.8	43.2
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1.1. Taxes on production and imports	D.2	12.0	12.1
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5. Discretionary budgetary developments

The government is working on implementation of the Coalition Agreement 'Confidence in the future'. As an addendum to the 2018 Draft Budgetary Plan, the government published its 'Initial Policy Memorandum', which contains the budgetary consequences of the Coalition Agreement. This Draft Budgetary Plan also contains recent decision-making. The effect of the Coalition Agreement on expenditure and taxes is increasing further. It was also agreed in the Coalition Agreement to invest significantly in education and research, security and defence and infrastructure, among other things. These investments will amount to 8 billion in total in 2021. It was also agreed in the Coalition Agreement to reduce the tax burden and to reform the tax system. Part of these investments have already benefited households, businesses and organisations in the public sector. The amount of resources allocated by executing the Coalition Agreement further increases with this budget. This will also be the case in the years ahead.

Expenditure

- As a result of the Pension Agreement, the increase of the statutory retirement age (*AOW*) will be postponed, tax penalties following from the Early Retirement Act (*Regeling voor vervroegde uittreding, RVU*) will be alleviated, and the government will make a one-off investment of EUR 800 million, so that social partners can make arrangements to facilitate longer careers. This is partially covered by resources from the *Wet tegemoetkomingen loondomein* (which is a law on salary cost discounts). In this year's budget, it is not specified how the reduced coupling of the statutory retirement age with life expectancy will be financed in the long run, as these changes will take time to materialise.
- Additional funds will be made available to implement measures from the Climate Agreement. These funds will be spent on a fund to insulate housing, the emergency fund, agriculture, reducing nitrogen emissions, bicycle parking facilities, electric transportation and municipalities**.** These budgetary resources are added on top of the Climate budget that was provided as part of the Coalition Agreement.
- A cumulative amount of EUR 1 billion will be made available in the coming years to build additional housing. It will be issued through specific grants to municipalities.
- In the Dutch national plan for NATO defence expenditures, the government confirms its political intention to invest structurally in a number of priority capabilities, which are consistent with the capacity objectives of NATO. In line with this declaration of intent, additional funds will be committed for these capacity objectives. This commitment will rise to EUR 461 million in 2024. Structurally, this is EUR 162 million per year. Moreover, additional resources will be made available for the Military Intelligence and Security Service (*Militaire Inlichtingen- en veiligheidsdienst, MIVD*) and border surveillance by the Netherlands Marechaussee.
- In the coming years, extra budget will be made available for problem areas in youth services. Municipalities are in the throes of realising the transformation goal of decentralisations. This has resulted in the budget being insufficient in many municipalities. In the years ahead, the government will therefore provide additional budget to the municipalities totalling EUR 420 million in 2019, EUR 300 million in 2020 and EUR 300 million in 2021. Furthermore, it has been agreed with municipalities that a new review on volume and expenditure development and on management will be completed in the autumn of 2020.
- For a stable financing of the asylum chain, an amount of approximately EUR 100 million will structurally be made available. As a result, the operational procedure can be organised better and processing times in the asylum chain can be reduced further. In 2020, the amount of additional budgetary resources for the asylum chain will total EUR 134 million, partly due to budgetary processing of asylum estimates.
- For 2020, the budget available for the judiciary has been increased by EUR 61 million. This budget not only resolves the financial shortfall but has also created space for necessary investments.
- The government has decided to accelerate the scale down of gas extraction. With this acceleration, the government underlines the previously mentioned objective of discontinuing gas extraction in Groningen as soon as possible. Drawing on the recommendations from GTS (Gasunie Transport Services), there are possibilities to scale back gas extraction sooner than was expected in the 2019 Budget Memorandum. The government is aspiring to reach the level of 12 billion cubic metres as soon as possible. The budgetary impact of decisions on the volume

of gas extraction will be accommodated below the expenditure ceiling, consistent with budgetary rules.

- The additional expenditure is partly financed with expenditure windfalls. These mainly consist of windfalls and estimate revisions for healthcare expenditure and lower interest payments.

Table 5.1 Additional budget (EUR million)	2019	2020	2021	2022	2023	2024
Pension Agreement	2	399	955	1,009	696	453
Climate Agreement	400	150	245	180	150	205
Housing market		250	250	250	250	
Defence	14	51	263	376	424	479
Youth services	420	300	300			
Asylum and Migration	15	134	146	134	112	100
Judiciary	50	61	58	53	48	38
Reduction of gas extraction	110	350	270	130	130	20

Tax burden

The government is taking additional measures to reduce the tax burden on households. In the Budget Memorandum the government has presented additional measures to ensure additional growth of household disposable income, added on top of the measures from the Coalition Agreement. The government is bringing forward EUR 1.7 billion worth of planned tax-relief measures in 2020. This means that the two-bracket income tax system will already be introduced in 2020, with lower marginal rates for middle-income households, and an additional increase of the general tax credit. Healthcare benefits will be increased in 2020, specifically to improve the purchasing power of low-income households.

Structurally, there will be EUR 3 billion of additional budgetary resources to reduce the burden on households, especially for workers. Of that amount, EUR 1.5 billion is financed through a shift of the tax burden from households to businesses. This budgetary space is partly used for an additional structural increase of the general tax credit by EUR 750 million and a reduction of the tax rate in the (new) lowest tax bracket by EUR 350 million. To specifically relieve the tax burden on labour, the labour tax credit will be raised by EUR 2.15 billion extra in three steps as from 2020.

The government believes that, following up on measures taken previously, it is desirable to reduce the difference in the tax treatment between the self-employed and employees. With that in mind, the income tax deduction for the self-employed will gradually be reduced. Starting from 2020, the government will reduce the deduction for the self-employed in nine annual steps to EUR 5,000 in 2028. That is slightly less than 70% of the current level. In 2020, 2021 and 2022 self-employed workers will be compensated for this via the higher labour tax credit. The Committee on the Regulation of Work is currently drawing up a recommendation on the future of the labour market, publication is expected at the end of 2019. In the run-up to that recommendation, the government will reserve a portion of the revenue as a result of the lower self-employed deduction. This budget can be used for further steps in reforming the labour market relating to self-employed workers.

The tax-relief measures for households are juxtaposed by an increase of the tax burden on companies. In 2020, the high rate of the corporate tax (*VPB*) will be reduced less, and structurally the corporate tax rate will also be reduced by 1.2 percentage points less than originally planned. In addition, the government is broadening the tax base for the corporate tax in 2021 by raising the effective rate of the Innovation box to 9% and adjusting the liquidation and discontinuation loss scheme. Further, the early-payment discount for the corporate tax will be abolished.

Revenue[4]

Table 5.2: 2020 Budget Memorandum effect on the revenue framework					
In billions of euros, - means deteriorating balance, mutations	**2018**	**2019**	**2020**	**2021**	Cumulative 2018-2021
Revenue framework stance, 2019 Budget Memorandum	**2.1**	**3.8**	**-1.0**	**-1.6**	**3.4**
(1) Effect of the Climate Agreement and Pension Agreement	0.0	0.0	0.0	-0.7	-0.6
(2) Health Insurance Premiums (adjustment between 2019 and 2020 Budget Memorandum)	0.0	0.0	-1.4	0.2	-1.1
(3) New measures and revisions	0.0	0.0	0.3	-0.2	0.1
(4) Additional measures to align with lower Energy Tax from the Climate Agreement	0.0	0.0	-0.1	-0.1	-0.2
(5) Shortfall (2+3+4) due to raising new lowest tax bracket rate and invalidity insurance fund premium	0.0	0.0	1.0	0.3	1.2
(6) Tax-relief measures for households August (ceiling correction)	0.0	0.0	-0.8	-0.9	-1.6
Revenue framework stance, 2020 Budget Memorandum	**2.1**	**3.8**	**-2.0**	**-2.9**	**1.0**

In last year's Budget Memorandum the policy-related tax burden corresponded with the pathway set out in the Initial Policy Memorandum. There have been various deviations from the revenue framework since then. Table 5.2 provides an overview of these deviations, subdivided into six packages. The framework was adjusted for both the Climate and Pension Agreement and the tax-relief measures for households. As a result the policy-related tax burden will increase less than envisaged in the Initial Policy Memorandum (EUR 1 billion instead of EUR 3.4 billion). The remaining packages were accommodated within the revenue framework.

Effects of Climate Agreement and Pension Agreement for revenue side
On June 28 the government presented the Climate Agreement. The Climate Agreement contained many measures on the expenditure side. The tax measures in the Climate Agreement are financed through an increase in the 3rd and 4th tax brackets of the Surcharge for Sustainable Energy (*Opslag Duurzame Energie, ODE* , revenue EUR 440 million in 2020, EUR 483 million in 2021, rising to EUR 624 million in 2030), an increase in the non-residential transfer tax from 6% to 7% (structurally EUR 297 million as from 2021), coverage for the minimum price for CO_2 (structurally EUR 236 million as from 2022), and EUR 305 million from the expenditure side in 2020 (for which the framework has been adjusted).

For the remaining deviation from the revenue framework this government period, together with a deviation as a consequence of the Pension Agreement, a framework adjustment of EUR 0.6 billion was applied for this government period. This was chosen because it concerns structural reforms and because of additional revenue development after the government period.

Lower health insurance premiums
There was a downward revision in the estimate of health insurance premiums for the Healthcare Insurance Act (*Zorgeverzekingswet, Zvw*) for the period 2018-2021, mainly due to lower healthcare costs. The premiums are set to cover expenditure. This means a tax-relief of

[4] The figures mentioned here are based on the 2020 Budget Memorandum, and may differ slightly from the EMU-based figures referred to elsewhere in this report.

EUR 1.1 billion for households and businesses during this government period. In accordance with the budgetary rules this tax-relief must be compensated with additional tax revenues elsewhere.

New measures and reviews
Aside from the above-mentioned packages, a number of measures have been taken which have an impact on the revenue framework. These include revenues from increased excise duties (on tobacco) from the Prevention Agreement (revenue of EUR 170 million this government period), and a revision of the minimum capital scheme compared to the 2019 Budget Memorandum (revenue of EUR 120 million this government period). In the context of the Pension Agreement, it was also agreed that EUR 200 million had to be covered within the revenue framework. On balance, all these measures lead to additional (policy-related) revenue of EUR 0.1 billion in this government period.

Additional measures to align with reduced Energy Tax in Climate Agreement
After reviewing the measures set out in the Climate Agreement it appeared that the tax part of households' energy bill dropped at a slower pace than the government had previously promised. Additional measures are therefore necessary to stay in line with the previously communicated reduction of the tax part of the energy bill. These costs amount to EUR 0.2 billion.

Funding of the above shortfall by raising the lowest tax bracket rate and Invalidity Insurance Fund premium (Arbeidsongeschiktheidsfonds, AOF)
The shortfall in the revenue framework as a result of the above measures will be funded by raising the rate of the lowest income tax bracket this cabinet period by EUR 0.5 billion and the Invalidity Insurance Fund premium by EUR 0.7 billion.

Tax-relief measures for households
The government has decided on additional tax-relief measures for households. Tax-relief for households is partially financed through an increased tax burden on companies. The revenue framework was adjusted for the remaining revenue shortfall of EUR 1.6 billion this government period and EUR 2.2 billion structurally. This is because the tax-relief measures coincide with a reform: reducing the difference in tax treatment between employees and the self-employed.

Investments in earning capacity: growth agenda and investment fund
The government is exploring options to improve the earning capacity of the Netherlands in the long term. In the fourth quarter of 2019 the Minister of Economic Affairs and Climate will present a broad agenda to strengthen the sustainable earning capacity in the long term. To achieve this, both financial and non-financial measures are being considered, and both public investments and promoting private investments are being explored.

The government is also exploring how an investment fund can be established to strengthen the earning capacity, under the financial responsibility of the Ministry of Finance and policy responsibility of the Ministry of Economic Affairs and Climate. A report on this will be published at the beginning of 2020. Clear conditions and boundaries are necessary for the investment fund to succeed. These public investments must be aimed at increasing the earning power of the Netherlands in twenty to thirty years, or in other words to ensure sustainable economic growth and, therefore, future prosperity. Not the short-term gains, but the interests of both current and future generations are taken into consideration for decisions on these public investments. Knowledge development, research & development (R&D) and innovation and infrastructure, seem to be the areas that are most able to contribute to productivity growth. This will be explored further, because a strict selection of projects must take place according to the added value for the earning capacity. To achieve a good selection, good governance and the involvement of external experts is necessary. It is important that public investments are additional to private initiatives, to prevent public resources crowding out private investments. In addition, a fund must have added value in respect of existing public initiatives, such as the Infrastructure Fund and InvestNL, and lessons can be learned from the past.

6. Possible links between the Draft Budgetary Plan and the targets set by the Union's Strategy for growth and jobs and country-specific recommendations

Table 6.a Country-specific recommendations (CSRs)

CSR number	**Measures (actual progress/new in respect of 2019 National Reform Programme, NRP)**	**Description**
CSR 1		
While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation.	On 26 April 2019, the government established twenty-five missions aimed at four social themes (Agriculture, Water and Food; Health and Healthcare; Safety; Energy Transition & Sustainability); and it also established a strategy for key technologies. On the basis of these missions, the Top Sectors were asked to draw up 2020-2023 Knowledge & Innovation Agendas (KIAs) for the four social themes, the key technologies, and for the sixth KIA (which Top Sector specifically geared towards the earning capacity), in collaboration with a wide field of stakeholders (knowledge institutions, ministries, regions, etc.). And with extra attention for valorisation, market creation, SMEs and start-ups/scale-ups. The six KIAs were completed in mid-July (95% version). The Ministry of Economic Affairs and Climate will also invest additional resources (structurally EUR 10 million as from 2021) in multi-annual innovation programmes, such as aerospace and key technologies.	Establishing the KIAs is an important step towards implementation of the mission-driven policy. The KIAs will be used to give directions toward innovation targets relevant to the Netherlands in the forthcoming years, based on societal challenges and transitions. The perception is that the current KIAs (compared to previous versions) are more integral, and more attention is paid to implementation and application. The KIAs also form the basis for discussions on the programme and further elaboration of the Knowledge and Innovation Covenant (KIC), in which agreements are made about implementation and public-private commitment. The KIC will consist of an overarching KIC and partial KICs (per theme and key technologies). It will include agreements on resources, cooperation and focus, and is expected to be signed on 11 November 2019. Additional resources can be used as a first step for more targeted investments in key technologies.
Take measures to reduce the debt bias for households and the remaining distortions in the housing market, in particular by supporting development of the private rental sector.	In May, the Dutch Senate adopted the 'Maatregelen middenhuur' law (aimed at the middle segment of the rental market). This amendment includes a simplification of the market criterion (*markttoets*) and a clarification of the Housing Act (*Huisvestingswet*). This provides housing corporations and municipalities with more capacity to meet the high demand for rental	The 'Maatregelen middenhuur' law, the budgetary impulse and elements in the housing deals, contribute to the functioning of the rental market and increasing the supply of affordable rental housing.

	homes for middle-income households. Additional resources will be made available to stimulate residential construction, including a government grant of EUR 1 billion to build affordable housing in scarcity areas. For the landlord tax , a structural reduction of EUR 100 million per annum is introduced to build housing in regions where the pressure on the housing market is greatest. The five housing deals – concluded by the Minister of the Interior and Kingdom Relations with the areas that have the direst need – explicitly pay attention to further development of the middle segment rental market. For the mortgage interest tax relief, the government is adhering to the planned downward trajectory. This means that the reduction of the maximum mortgage interest relief rate will be accelerated as from 1 January 2020. Eventually, the maximum mortgage interest relief rate will be 37.05% in 2023.	A scaling down of mortgage interest tax relief contributes to a more stable housing market with lower debts. By accelerating the scaling down of this tax deduction, the fiscal incentives and disruption in the housing market will diminish faster.
LSA 2		
Reduce the incentives to make use of temporary contracts and self-employed workers, while promoting adequate social protection for the self-employed, and tackling bogus self-employment. Create conditions to promote higher wage growth, respecting the role of social partners.	The Balanced Labour Market Act (*Wet Arbeidsmarkt in Balans, WAB*) was adopted by the Dutch Senate on 28 May 2019. This will come into force as of 1 January 2020. This law contains a package of measures to reduce the differences in the labour market. On 20 June 2019, the Committee on the Regulation of Work presented a discussion paper on the future of work. The Committee was asked to report no later than 1 November 2019. On 24 June 2019, the Dutch House of Representatives was informed by letter about progress on the implementation of measures on 'working as a self-employed' (Parliamentary Paper	The government wants to prepare the labour market for new challenges, reduce differences in the labour market and work towards a labour market that offers opportunities to everyone. The government wants to accomplish this wide objective together with the social partners.

	2019Z13039). This letter includes the announcement of a minimum hourly rate for the self-employed. To reduce the difference in tax treatment between the self-employed and employees, income tax deduction for the self-employed is gradually being scaled down. As of 2020, the government will reduce the deduction in nine annual steps to EUR 5,000 in 2028. That is slightly less than 70% of the current level.	
Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks.	On 5 June 2019, based on advice from the Social and Economic Council, the social partners and government concluded a Pension Agreement on a more robust and more personal second pillar of the pension system that fits in better with the changing labour market (Parliamentary Papers II, 2018-19, 32 043, no. 457). Specific agreements: - The so-called uniform accrual system is being discontinued and replaced by a more neutral contribution scheme. - Pension contracts no longer aim for nominal guaranteed benefits, which means lower buffers are needed and prospects for indexation improve. - A once-off withdrawal of a maximum of 10% of the pension amount will be possible on the retirement date. - In the light of and in anticipation of this reform, current rules concerning pension cuts will temporarily be relaxed, which limits the risk and size of pension cuts. The arrangements in the Pension Agreement will be elaborated under the guidance of a steering committee of government and social partners. By 2022, the legal framework for the pension reform must be ready for use. In addition, the statutory retirement age (*AOW* age) will be frozen for two years and will then rise less quickly than previously	

	anticipated. For the long term, it has been agreed that one year of living longer leads to eight months of working longer. EUR 800 million is also made available for sustainable employability. From 2021, for a period of five years, benefits will be exempted from the tax penalty on early retirement (RVU) in the last three years before the statutory retirement age, up to an amount of approximately EUR 19,000.	

Table 6.b Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	**Measures (progress/new in respect of 2019 National Reform Programme, NRP)**	**Description of direct relevance to address the target**
National 2020 employment target [80%]	Gross labour market participation was 80.3% in 2018.	
National 2020 R&D target [2.5%]	See Table 6a.	
GHG emission reduction target - non-ETS sectors [-16%] - ETS sectors [not applicable]	In June, the government presented a Climate Agreement establishing measures and targets for 2030 and 2050.	
National target for renewable energy [14%]	In June, the government presented a Climate Agreement establishing measures and targets for 2030 and 2050.	
National energy efficiency target [1.5% per year]	In June, the government presented a Climate Agreement establishing measures and targets for 2030 and 2050.	
National early school-leaving target [<8%]	This percentage was 7.3% last year.	
National tertiary education target [>40%]	Last year, the Netherlands achieved a figure of 49.4%.	
National social inclusion and poverty target [100,000 fewer *jobless households*]	In May, the government sent a letter about progress on the plan for problematic household debt. This spring, on advice from the Social and Economic Council (*SER*) the Dutch government presented its ambitions to reduce child poverty. The minister has asked the Social and Economic Council to do a survey into the working poor. The programme 'prospects of work' is being developed so that employers and job seekers can find each other easier and faster. In 2020 the labour market regions will again be given an extra boost of EUR 35 million to help job seekers find work.	Reducing the number of people with problematic debt and to provide better help to people in debt. Specific investment in poverty-stricken children to prevent social exclusion and future lagging behind. More knowledge about the effectiveness of financial incentives and labour and re-integration obligations, to realise an outflow of people in unemployment schemes, towards employment. And more knowledge about the underlying (institutional) reasons for poor employees working part-time and the low hourly rates of poor self-employed.

7. Divergence from latest Stability Programme

The government currently expects a lower budget surplus for 2020 than in the 2019 Stability Programme. In 2019, the surplus is expected to be slightly bigger. In 2019 this is mainly due to lower expenditure by the government. The downward revision for 2020 is due to lower-than-expected revenues as a result of the tax-relief measures as explained in chapter 3, higher expenditure due to investments in infrastructure and defence, and also due to lower natural gas revenues.

Table 7. Divergence from latest the Stability Programme

		2018	2019	2020
	ESA Code	% of GDP	% of GDP	% of GDP
General government net lending/net borrowing	B.9			
Stability Programme		1.5	1.2	0.8
Draft Budgetary Plan		1.5	1.3	0.2
Difference		0.1	0.1	0.5

8. Distributional impact of most important expenditure and revenue measures

Thanks to rising wages and lower taxes on labour, purchasing power is set to grow in 2020. The median (static) purchasing power is expected to rise by 2.1% in 2020. Next year working household purchasing power will grow the most, by 2.4%, but pensioners and benefit recipients will also see strong development in their purchasing power, with an expected increase of 1.2% in purchasing power for both groups. Not only do wage increases provide for additional disposable income, but the government is also reducing taxes which will give purchasing power a positive boost. This relates to measures which were already planned in the Coalition Agreement, and also additional purchasing power measures taken in August. As a result of the tax-relief measures, the marginal tax rate households face will be reduced in 2020. Aside from the tax-relief measures, which are mainly aimed at boosting incomes of the working middle class, the government has also paid special attention to the lower end of the distribution. For example, government benefits and the general tax credit will be increased in 2020 for the benefit of low-income households. The following table shows the total development in purchasing power. This does not differentiate the effect of government policy, because both the Coalition Agreement as well as current decision-making and economic expectations have an impact on developments in purchasing power.

Table 8. Development in purchasing power for various household groups (%)

	2020
Income group	
1st quintile (0-20%)	1.4
2nd	1.9
3rd	2.2
4th	2.4
5th quintile (81-100%)	2.4
Source of income	
Working households	2.4
Benefit recipients	1.2
Pensioners	1.2
Household type	
Double-income households	2.3
One-person households	1.8
Single-income households	2.2
Family composition	
With children	2.6
Without children	2.2
All households	2.1

Annex I – Methodology, economic models and assumptions underpinning the information contained in the DBP

Table 9. Methodological aspects.

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

Modelling tools may have been used:

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

Annex II – Draft Budgetary Plan Tables

Table 0.i) Basic assumptions

	2018	2019	2020
Short-term interest rate (annual average)	-0.3	-0.4	-0.5
Long-term interest rate (annual average)	0.6	0.1	0.0
USD/EUR exchange rate (annual average)	1.18	1.13	1.12
Nominal effective exchange rate	2.8	-0.6	0.0
World excluding EU 28, GDP growth	4.0	3.6	3.7
EU 28 GDP growth	1.8	1.1	1.2
Growth of relevant foreign markets	3.2	1.9	1.9
World import volumes, excluding EU	4.8	1.6	2.6
Oil prices (Brent, USD/barrel)	70.94	64.86	61.33

Table 0.ii) Main assumptions.

	2018	2019	2020
1. External environment			
a. Prices of commodities (raw materials excluding energy (HWWI), euros)	23.4	-6.6	-3.5
b. Spreads over the German bonds	0.1	0.2	0.2
2. Budgetary policy			
a. General government net lending/net borrowing	11.3	10.8	1.9
b. General government gross debt	405.4	397.3	397.3
3. Monetary policy/Financial sector/interest rate assumptions			
a. Interest rates:			
i. Euribor			
ii. Deposit rate			
iii. Interest rates for loans			
iv. Yields at maturity of 10-year government bonds	0.6	0.1	0.0
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. Demographic trends			
a. Evolution of working-age population	1.2	1.4	1.0
b. Dependency ratios	70.5	71.1	71.5
5. Structural policies			

Table 1.a. Macroeconomic prospects

	ESA Code	2018 Level	2018 growth	2019	2020
1. Real GDP*	B1*g	774.0	2.6	1.8	1.5
1.1. which are attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			1.8	1.9	1.7
Contributions:					
- labour			1.0	0.9	0.6
- capital			0.6	0.7	0.7
- total factor productivity			0.2	0.3	0.3
3. Nominal GDP	B1*g		4.9	4.4	3.1
Components of real GDP					
4. Private final consumption expenditure	P.3	341.5	2.3	1.5	1.9
5. Government final consumption expenditure	P.3	187.6	1.6	2.2	2.9
6. Gross fixed capital formation	P.51	157.5	3.2	5.9	2.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2.4	-0.2	-0.2	0.0
8. Exports of goods and services	P.6	652.7	3.7	2.3	1.9
9. Imports of goods and services	P.7	567.6	3.3	3.1	2.9
Contributions to real GDP growth					
10. Final domestic demand		686.6	2.0	2.3	2.0
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	2.4	-0.2	-0.2	0.0
12. External balance of goods and services	B.11	85.1	0.7	-0.4	-0.5

*Base year is 2017

Table 1.b. Price developments

	2018 change	2019	2020
1. GDP deflator	2.2	2.5	1.5
2. Private consumption deflator	2.0	2.7	1.4
3. Harmonised index of consumption prices (HICP)	1.6	2.6	1.3
4. Public consumption deflator	2.9	2.6	1.9
5. Investment deflator	2.7	2.4	1.8
6. Export price deflator (goods and services)	2.2	0.2	0.5
7. Import price deflator (goods and services)	2.5	0.0	0.6

Table 1.c. Labour market developments

	ESA Code	2018 Level	2018	2019	2020
1. Employment, persons		9366.9	2.5	1.8	0.9
2. Employment, hours worked		13407.6	2.2	2.1	0.8
3. Unemployment rate (%)		350.0	3.8	3.4	3.5
4. Labour productivity, persons		82.6	0.1	0.0	0.7
5. Labour productivity, hours worked		57.7	0.4	-0.2	0.7
6. Compensation of employees	D.1	369.4	4.7	5.6	3.9
7. Compensation per employee		39.4	2.0	3.1	3.0

Table 1.d. Sectoral balances

	ESA Code	2018 % of GDP	2019 % of GDP	2020 % of GDP
1. -Net lending/net borrowing vis-à-vis the rest of the world	B.9	11.2	9.6	8.7
of which:				
- Balance on goods and services		11.0	10.3	9.5
- Balance of primary incomes and transfers		1.0	0.0	0.0
- Capital account		-0.8	-0.7	-0.8
2. Net lending/net borrowing of the private sector	B.9	9.7	8.3	8.4
3. Net lending/net borrowing of general government	B.9	1.5	1.3	0.2
4. Statistical discrepancy				

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

	ESA Code	2019 % of GDP	2020 % of GDP
Net lending (+) /net borrowing (-) by subsector			
1. Government	S.13	1,3	0,2
2. Central government	S.1311	0,6	-0,3
3. State government	S.1312		
4. Local government	S.1313	-0,2	-0,2
5. Social security funds	S.1314	1,0	0,7
6. Interest expenditure	D.41	0,7	0,6
7. Primary balance		2,0	0,8
8. One-off and other temporary measures		0,2	0,0
8a. *Of which: on the revenue side*		0,2	0,0
8b. *Of which: on the expenditure side*		0,0	0,0
9. Real GDP growth (%) (= 1 in table 1.a)		1,8	1,5
10. Potential GDP growth (%) (= 2 in table 1.a)		1,9	1,7
Contributions:			
- labour		0,9	0,6
- capital		0,7	0,7
- total factor productivity		0,3	0,3
11. Output gap (% of potential GDP)		1,1	1,0
12. Cyclical budgetary component (% of the potential GDP)		0,7	0,6
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0,6	-0,4
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		1,3	0,2

15. Structural balance (13-8) (% of the potential GDP)	0.3	-0.4

Table 2.b General government debt developments

	ESA Code	2019 % of GDP	2020 % of GDP
1. Gross debt		49.2	47.7
2. Change in gross debt ratio		-3.3	-1.5
Contributions to changes in gross debt			
3. Primary balance (= item 7 in Table 2.a.i)		2.0	0.8
4. Interest expenditure (= item 6 in Table 2.a.i)	D.41	0.7	0.6
5. Stock-flow adjustment		-1.9	-1.2
of which:			
- Differences between cash and accruals		-0.3	-0.1
- Net accumulation of financial assets		0.3	0.2
of which:			
- privatisation proceeds		0.1	0.0
- valuation effects and other			
p.m.: Implicit interest rate on debt		1.4	1.2
Other relevant variables			
6. Liquid financial assets		-0.1	0.2
7. Net financial debt (7=1-6)		49.3	47.5
8. Debt amortization (existing bonds) since the end of the previous year		3.7	3.6
9. Percentage of debt denominated in foreign currency*		0.1	-
10. Average maturity		6.4	6.4

Table 2.c Contingent liabilities

	2019 (% of GDP)	2020 (% of GDP)
Public guarantees	22.4	21.8
Of which: related to the financial sector	18.4	17.9

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

General government (S.13)	ESA Code	2019 % of GDP	2020 % of GDP
1. Total revenue at unchanged policy	TR	43.8	43.2
of which			
1.1. Taxes on production and imports	D.2	12.0	12.1
1.2. Current taxes on income, wealth, etc.	D.5	12.9	12.3
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	14.1	14.2
1.5. Property income	D.4	0.8	0.7
1.6. Other		3.7	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.2	38.8
2. Total expenditure at unchanged policy	TE	42.5	42.9
of which			
2.1. Compensation of employees	D.1	8.3	8.4
2.2. Intermediate consumption	P.2	6.0	6.1
2.3. Social payments	D.62	20.6	20.8
of which Unemployment benefits	D.632	1.4	1.3
2.4. Interest expenditure	D.41	0.7	0.6
2.5. Subsidies	D.3	1.2	1.3
2.6. Gross fixed capital formation	P.51	3.3	3.4
2.7. Capital transfers	D.9	1.0	0.7
2.8. Other		1.6	1.6

Table 4.a General government expenditure and revenue targets, broken down by main components.

General government (S.13)	ESA Code	2018 % of GDP	2019 % of GDP
1. Total revenue at unchanged policy	TR	43.8	43.2
of which			
1.1. Taxes on production and imports	D.2	12.0	12.1
1.2. Current taxes on income, wealth, etc.	D.5	12.9	12.3
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	14.1	14.2
1.5. Property income	D.4	0.8	0.7
1.6. Other		3.7	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.2	38.8
2. Total expenditure at unchanged policy	TE	42.5	42.9
of which			
2.1. Compensation of employees	D.1	8.3	8.4
2.2. Intermediate consumption	P.2	6.0	6.1
2.3. Social payments	D.62	20.6	20.8
of which Unemployment benefits	D.632	1.4	1.3
2.4. Interest expenditure	D.41	0.7	0.6
2.5. Subsidies	D.3	1.2	1.3
2.6. Gross fixed capital formation	P.51	3.3	3.4
2.7. Capital transfers	D.9	1.0	0.7
2.8. Other		1.6	1.6

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

		2018	2019	2020
	ESA Code	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		0.02	0.03	0.02
2. Cyclical unemployment benefit expenditure*		-	-0.2	-0.1
3. Effect of discretionary revenue measures		-0.4	0.3	-0.6
4. Revenue increases mandated by law		0.1	0.1	-0.1

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

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

	2019		2020	
	% of GDP	% general government expenditure	% of GDP	% general government expenditure
Education	5.1	12.1	5.1	11.9
Healthcare	7.7	18.2	7.8	18.1
Employment*	0.4	0.8	0.3	0.8

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

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

Functions of the Government		2019	2020
	COFOG Code	% of GDP	% of GDP
1. General public services	1	4.4	4.4
2. Defence	2	1.1	1.2
3. Public order and safety	3	1.7	1.6
4. Economic affairs	4	4.0	4.3
5. Environmental protection	5	1.4	1.4
6. Housing and community amenities	6	0.3	0.3
7. Health	7	7.7	7.8
8. Recreation, culture and religion	8	1.2	1.2
9. Education	9	5.1	5.1
10. Social protection	10	15.6	15.5
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	42.6	43.0